

**NORTH ORANGE COUNTY
COMMUNITY COLLEGE DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Orange County Community College District
Anaheim, California

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, and the aggregate remaining fund information of North Orange County Community College District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the aggregate remaining fund information of the District as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 2 and 15 to the financial statements, in 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 5 through 18, the Schedule of Other Postemployment Benefits (OPEB) Funding Progress on page 61, the Schedule of the District's Proportionate Share of the Net Pension Liability on page 62, and the Schedule of District Contributions on page 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information listed in the Table of Contents, including the Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information, including the Schedule of Expenditures of Federal Awards, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vavrinich, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 1, 2015



NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RODRIGO L. GARCIA, CPA
*District Director
Fiscal Affairs*

BRIAN FAHNESTOCK
*Interim Vice Chancellor
Finance & Facilities*

FRED WILLIAMS, CPA
Interim Chancellor

Introduction

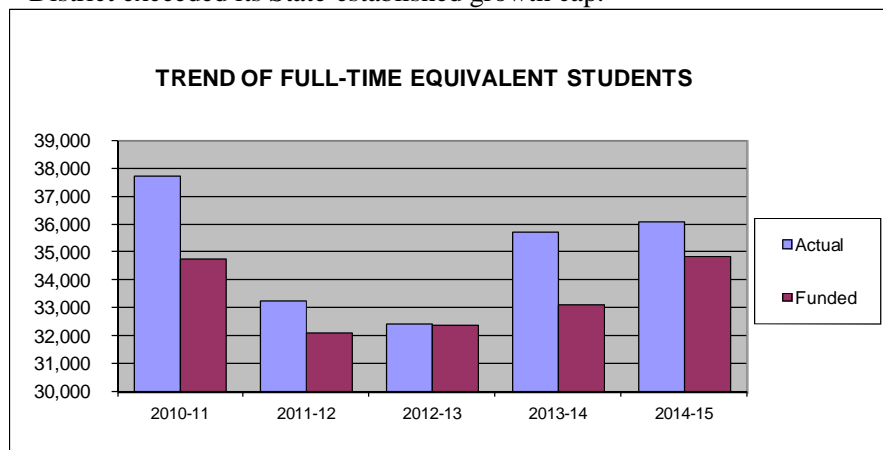
The following discussion and analysis provides an overview of the financial position and activities of the North Orange County Community College District (the District) for the year ended June 30, 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The District is reporting according to the standards of Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35 using the Business-Type Activity (BTA) model. The California Community Colleges Chancellor's Office, through its Fiscal Standards and Accountability Committee, recommends that all community college districts use the reporting standards under the BTA model.

North Orange County Community College District includes two comprehensive community colleges and a large School of Continuing Education. The mission of the District is to serve and enrich our diverse communities by providing a comprehensive program of educational opportunities that are accessible, academically excellent, and committed to student success and lifelong learning. Cypress College and Fullerton College offer associate degrees, vocational certificates, and transfer education, as well as developmental instruction and a broad array of specialized training. The School of Continuing Education offers non-college credit programs including high school diploma completion, basic skills, vocational certificates, and self-development courses. Specific activities in both the college and School of Continuing Education will be directed toward economic development within the community.

Selected Highlights

- During 2014-2015, total Full-Time Equivalent Students (FTES) increased by approximately 365 or 1.02 percent. This planned increase occurred primarily due to Fullerton College's increased class offering in the 2014 Summer session. While credit and non-credit FTES, along with a per college and per center allocation are the basis for the District's State apportionment, State-established growth caps provide a ceiling on the level of FTES funding possible. The District exceeded its growth cap for 2014-2015 by approximately 1,222 FTES or 3.51 percent. Thus, 2014-2015 was the eighth consecutive year in which the District exceeded its State-established growth cap.



NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

- On March 5, 2002, the voters of the District approved a \$239,000,000 bond measure with \$139,000,000 (Series A) issued in May 2002 and \$99,999,001 (Series B) issued in December 2003. In April 2005, the District issued \$164,935,000 General Obligation Refunding Bonds to advance refund and defease portions of the Series A and B bonds. The Refunding resulted in an additional \$9.6 million in proceeds which was used to leverage an additional \$87 million from State Facilities Bond monies to meet local match requirements for the Cypress College Humanities project and the Fullerton College Science Building and Technology Center projects. Twenty major projects were established to be undertaken with these bond proceeds that would provide better facilities for the students, faculty, and community. On January 24, 2013 the District issued \$145,910,000 General Obligation Refunding Bonds to advance refund and defease a portion of the 2005 General Obligation Refunding Bond. The District completed the refunding to reduce its debt service payment over the next 11 years by \$10,001,601.
- The District's \$574,000,000 Measure J Facilities Bond Measure was passed with over 55 percent of the votes. The election results were certified by the Orange County Registrar of Voters on November 18, 2014, while the Los Angeles Registrar of Voters certified their results on November 20, 2014. With the approval of Measure J, the District continues to focus efforts on planning, in order to run an efficient and transparent bond program.

Financial Highlights

This section is to provide an overview of the District's financial activities. A comparative analysis is included in the Management's Discussion and Analysis using prior year information. Certain prior year amounts have been reclassified to follow current year classifications.

Financial Statement Presentation and Basis of Accounting

The District's financial report includes three financial statements: The Statement of Net Position, the Statement of Revenues, Expenses, and Change in Net Position and the Statement of Cash Flows. Additional information regarding these financial statements is provided on the following pages.

The financial statements noted above are prepared in accordance with GASB Statements No. 34 and No. 35 that provide an entity-wide perspective. Therefore, the financial data presented in these financial statements is a combined total of all District funds including Student Financial Aid Programs, with inter-fund transactions eliminated.

Also, in accordance with GASB Statements No. 34 and No. 35, the financial statements have been prepared under the full accrual basis of accounting which requires that revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. A reconciliation between the fund balances reported on the June 30, 2015, Annual Financial and Budget Report (CCFS-311) based upon governmental accounting principles and the modified accrual basis of accounting, and the total net position recorded on the full accrual basis of accounting, is found on page 75 of the report.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting method used by most private-sector organizations. The Statement of Net Position is a point-of-time financial statement whose purpose is to present to the readers a fiscal snapshot of the District. The Statement of Net Position presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current), and net position (assets minus liabilities).

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Position provides a picture of the net position and their availability for expenditure by the District.

The difference between total assets, deferred outflows of resources and total liabilities and deferred inflows of resources (net position) is one indicator of the current financial condition of the District; another indicator is the change in net position which shows whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allocation for depreciation expense.

The Net Position is divided into three major categories. The first category, invested in capital assets, net of related debt, provides the equity amount in property, plant, and equipment owned by the District. The second category is expendable restricted net position; the net position is available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net position that is available to the District for any lawful purpose of the District.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

The Statement of Net Position as of June 30, 2015 and 2014, is summarized below.

| | (in thousands) | |
|--|----------------|---------------------|
| | 2015 | 2014 as restated |
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$ 158,558 | \$ 124,469 |
| Receivables | 6,921 | 32,018 |
| Inventory | 586 | 632 |
| Due from fiduciary funds | 5,402 | 4,479 |
| Other assets | 118 | 200 |
| Total current assets | 171,585 | 161,798 |
| Non-current assets | | |
| Capital assets, net | 404,004 | 409,373 |
| TOTAL ASSETS | 575,589 | 571,171 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charge on refunding | 3,794 | 7,588 |
| Current year pension contribution | 11,805 | 10,753 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 15,599 | 18,341 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 19,692 | 16,543 |
| Unearned revenue | 3,142 | 3,149 |
| Due to fiduciary funds | 3,658 | 2,740 |
| Compensated absences - current portion | 3,311 | 3,006 |
| Long-term liabilities - current portion | 15,475 | 14,200 |
| Total current liabilities | 45,278 | 39,638 |
| Non-current liabilities | | |
| Long-term liabilities less current portion | 407,531 | 453,572 |
| TOTAL LIABILITIES | 452,809 | 493,210 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Net change in proportionate share of net pension obligation | 2,709 | - |
| Difference between projected and actual earnings on pension plan investments | 38,827 | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 41,536 | - |
| NET POSITION | | |
| Net investment in capital assets | 195,507 | 189,164 |
| Restricted | 56,102 | 51,077 |
| Unrestricted* | (154,766) | (143,939) |
| TOTAL NET POSITION | \$ 96,843 | \$ 96,302 |

* Unrestricted Net Position is defined by GASB Statements No. 34 and No. 35 as those assets that do not have external legal restrictions against them, including any amounts designated by the Board of Trustees.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

- Cash and cash equivalents consist primarily of cash held in the General Fund (\$62.8 million), Bond Fund (\$5.3million), Capital Outlay Fund (\$32.7 million), and the Self Insurance Fund (\$26.0 million). Cash in the Retiree Benefits Fund at June 30, 2015, was \$66.7 million; an increase of \$6.8 million over the prior year, due to contributions and interest income. The Cash Flow Statement included in these financial statements provides greater detail of the sources and uses of the District's cash during the 2014-2015 fiscal year.
- Accounts receivable consist mainly of receivables from Federal and State sources for grant and entitlement programs and receivables from local sources for all other purposes. Note 4 of these financial statements provides a summary of the accounts receivable balance. The significant decrease in this account was due to the elimination of the State's deferrals. The 2014-2015 fiscal year was the first in many years that did not include any revenue deferrals. Last year's deferral was \$19.6 million.
- Inventory is primarily made up of merchandise held for sale in the bookstores located at Fullerton College and the School of Continuing Education. The decrease in this account is related to the planned efforts of reducing the cost of storing inventory on site.
- Due from fiduciary funds and Due to fiduciary funds consist of amounts due from/to the Associated Students Trust, Student Representation Fee, and Other Trust funds at Cypress College, Fullerton College, the School of Continuing Education, and the Retiree Benefits Fund.
- Other assets are made up of prepaid Bond issuance costs for the District's general obligation bond program which are being amortized over the term of the bond, and other prepaid expenses. The decrease in this account is primarily due to a decrease of credit memos at the Fullerton Bookstore.
- Capital assets, net is primarily made up of the District's investments in land, buildings and building improvements, construction in progress, and vehicles, at historical cost and net of accumulated depreciation. Note 6 of these financial statements provides a summary of changes during the 2014-2015 fiscal year.
- Accounts payable are amounts due as of the fiscal year end for goods and services received as of June 30, 2015. Accrued liabilities are amounts due to or on behalf of employees for wages and benefits earned as of the end of the fiscal year, but paid out subsequent to June 30, 2015. Increase in this account is due to the increase in expenditures in the Capital Outlay Funds in order to address many schedule maintenance projects that have been identified.
- Unearned revenues are those funds that are received, but not yet earned. They typically involve restricted State and Federal grants that are earned when spent and allow more than one year to expend the funds.
- Compensated absences are amounts accrued for accumulated, unpaid employee vacation benefits and load banking where eligible academic employees may teach extra courses in one period for exchange for time off in another period.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

- The District currently has one bonded debt issuance outstanding that amounts to \$213.8 million. Additionally, the District issued Refunding Bonds on portions of the two outstanding issues in April 2005 and issued Refunding Bonds on portions of the 2005 issuance in January 2013. The long-term debt balances include unamortized premiums and deferred charges on refunding related to the general obligation bond liability, compensated absences, and a net postemployment obligation for medical benefits for retirees, consistent with GASB Statement No. 45. Additional information regarding long-term debt is included in the Debt Administration section of this discussion and analysis.

Statement of Revenues, Expenses, and Change in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Change in Net Position. The purpose of this statement is to present the operating and non-operating revenues earned, whether received or not, by the District, the operating and non-operating expenses incurred, whether paid or not, by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this statement presents the District's results of operations.

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the District. Non-operating revenues are those received or pledged for which goods and services are not provided; for example, State appropriations are non-operating because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

The Statement of Revenues, Expenses, and Change in Net Position for the years ended June 30, 2015 and 2014, is summarized below:

| | (in thousands) | |
|---|------------------|---------------------|
| | 2015 | 2014 as restated |
| Operating Revenues | | |
| Net tuition and fees | \$ 20,108 | \$ 19,815 |
| Sales | 5,228 | 5,155 |
| Total operating revenues | <u>25,336</u> | <u>24,970</u> |
| Operating Expenses | | |
| Salaries and benefits | 181,838 | 169,857 |
| Supplies, materials, depreciation, and other expenses | 50,127 | 49,148 |
| Student financial aid | 56,059 | 51,600 |
| Total operating expenses | <u>288,024</u> | <u>270,605</u> |
| Operating loss | <u>(262,688)</u> | <u>(245,635)</u> |
| Non-operating revenues (expenses) | | |
| State apportionments, non-capital | 83,437 | 80,468 |
| Local property taxes | 87,475 | 81,449 |
| Grants and contracts, non-capital | 86,390 | 71,614 |
| State taxes and other revenues | 8,478 | 6,848 |
| Investment income | 509 | 352 |
| Other non-operating revenues (expenses), net | (7,153) | 370 |
| Total non-operating revenues (expenses) | <u>259,136</u> | <u>241,101</u> |
| Other revenues | | |
| State revenue, capital | <u>4,093</u> | <u>3,427</u> |
| Change in net position | 541 | (1,107) |
| Net position, beginning of year, as restated | <u>96,302</u> | <u>97,409</u> |
| Net position, end of year | <u>\$ 96,843</u> | <u>\$ 96,302</u> |

- Net tuition and fees are generated by the resident, non-resident, and foreign fees paid by students attending the District. These include fees paid for enrollment, health services, parking, community services classes, and other related fees. The increase in this account is directly related to the increase in FTES. The District's FTES increased 365, from 35,714 to 36,079.
- Sales are primarily related to the sale of merchandise in the Bookstores located at Fullerton College and the School of Continuing Education.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

- Salaries and benefits comprise of 63.1 percent of total operating expenses from a District-wide, full-accrual perspective. In other words, these amounts include the activity from all District funds, not just the General Fund. Consequently, this percentage is lower than normally discussed when talking about the percentage of salaries as compared to total expenses since it is computed using all Capital Outlay and Bond Fund expenditures that are primarily capital outlay expenditures. Salaries and benefits in the General Fund make up 81.1 percent of total General Fund expenses as reflected on page 76 of this report. The increase in this account is due to a 6.0 percent salary increase for Faculty, Part-time and Classified staff and a 6.5 percent salary increase for Confidential, Management, and Executive Management staff.
- Other operating expenses consist of supplies, insurance, utilities, depreciation expense, other services, and capital outlay items below the capitalization threshold. The increase in this account is related to increased purchases of capital outlay items below our capitalization threshold.
- Student financial aid is made up of financial assistance payments made to students as part of the Student Financial Aid cluster of programs.
- The operating loss reported on the Statement of Revenues, Expenses, and Change in Net Position is related to the reporting requirements of GASB Statement No. 35 that identify transactions as either exchange or non-exchange. If a transaction is considered an exchange transaction, then the revenue is considered operating revenue. Conversely, if a transaction is deemed a non-exchange transaction, then the revenue is considered non-operating revenue. In our case, the revenues received from the State of California as apportionment and from local property taxes are deemed non-exchange transactions and consequently, non-operating revenues. Every community college district within the State of California will have a large operating loss due to this required reporting presentation.
- State apportionments, non-capital, local property taxes, and tuition and fees are all components of the community college apportionment funding model. The model is comprised of a base allocation, an amount per credit FTES, non-credit FTES, and an enhanced amount per qualifying non-credit FTES for career development and college preparation courses. The increase in apportionment is primarily due to the State funding 1,486 FTES in 2014-2015 that was previously unfunded in 2013-2014. An important aspect of the community college apportionment funding model is the inverse relationship between State apportionment and local property taxes. Thus, our funding essentially comes from enrollment fees and local property taxes with the difference made up by State apportionment.
- Local property taxes are received through the Auditor-Controller's Office for Orange and Los Angeles Counties. The amount received for property taxes is deducted from the total State apportionment amount for general revenue calculated by the State. The increase is primarily due to the resurgence of the housing market.
- Grants and contracts, non-capital are primarily those received from Federal and State sources and used in the instructional program such as the Student Financial Aid cluster of programs, Vocational Education Programs, Disabled Student Programs and Services (DSPS), and Extended Opportunity Programs and Services (EOPS). Pages 66 through 68 of the supplementary information section of this report provide a complete listing of Federal and State non-capital grants and contracts.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

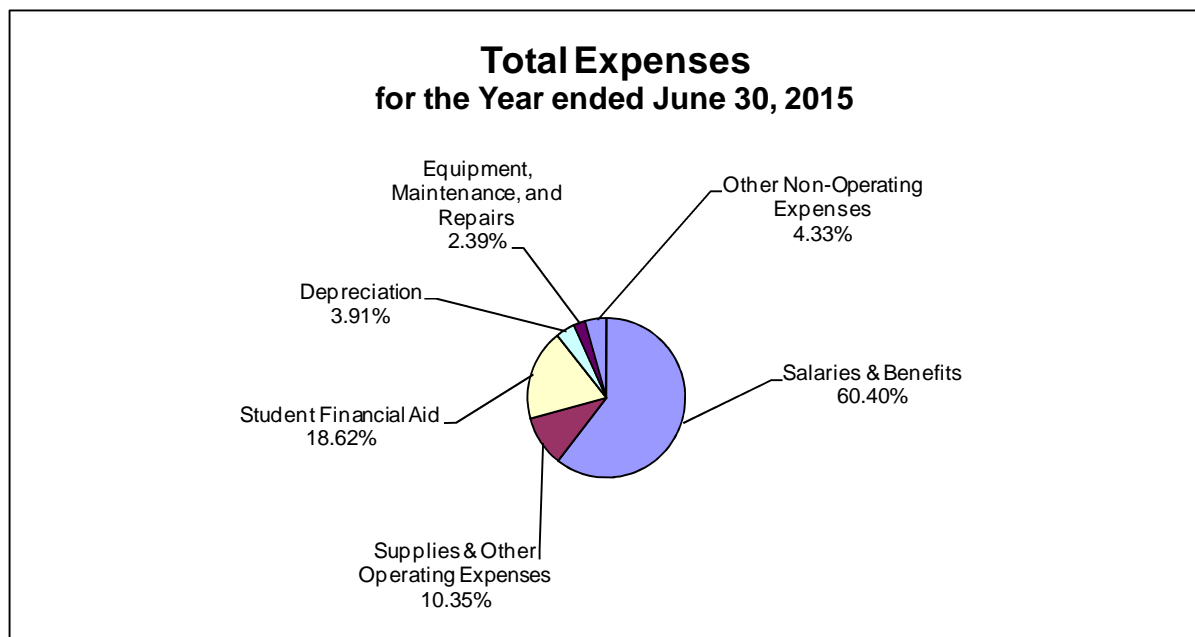
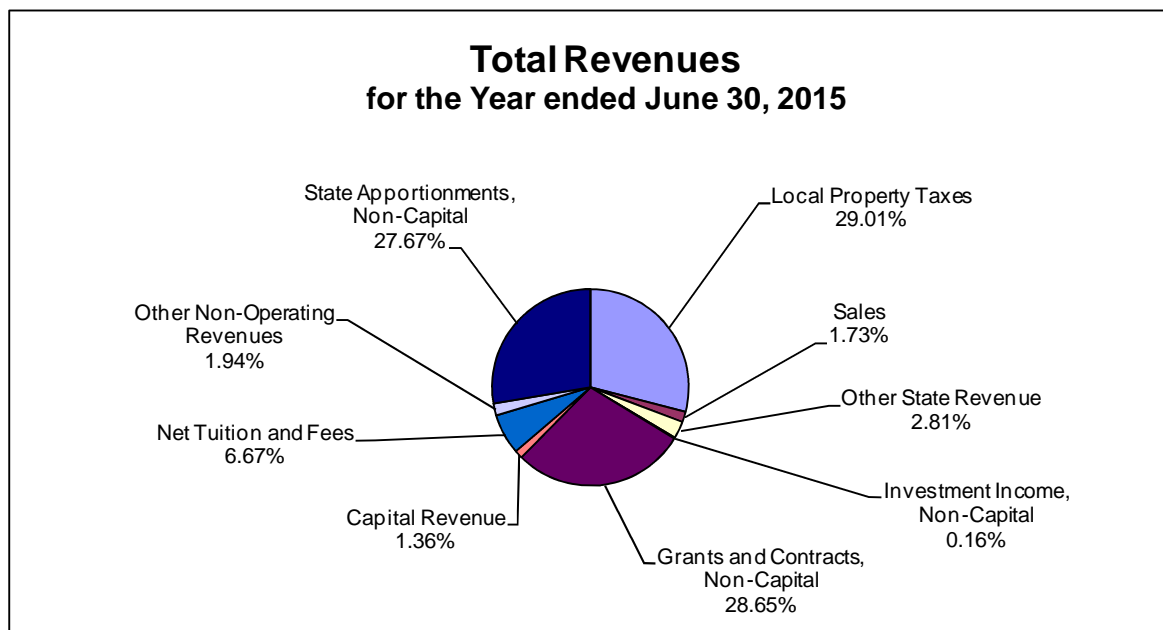
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

- State taxes and other revenues are mainly comprised of State mandated cost revenues and Lottery revenues. The increase in this account is primarily due to the receipt of an estimated \$51,000 more in Lottery funds from the State than the previous year, as well as receiving an estimated \$1.6 million more in mandated revenues.
- Investment income, net increase due to an increase in interest rates. Also, due to an increase in capital outlay and retiree benefits fund balances.
- Other non-operating revenues (expenses), net are comprised of the amounts recorded in the Bond Interest and Redemption Fund that was established for the General Obligation Bond, accrued interest on the general obligation bonds, other local revenues, local revenues designated for capital purposes, capital outlay fees received from non-resident students, transfers to and from the fiduciary funds, and an amount recorded for payments made by the State of California to STRS on the District's behalf in the amount of \$4.2 million. The decrease in this account is primarily due to the increase in interest expense of \$3.1 million in our Bond Interest and Redemption Fund. Also, contributing to the decrease was an additional \$2.7 million contribution to the Retiree Benefits Fund.
- State revenues, capital relate to projects for capital outlay. The increase in this account is mainly due to the recognition of additional schedule maintenance revenues received in 2014-2015 that was not received in 2013-2014.
- Effective in fiscal year 2014-2015, the District was required to implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The implementation of this standard required a change in accounting principle and restatement of the beginning net position of the District by \$169,880,324. (See Note 15.)
- Functional expenses, which show expenditures by activity such as instructional activities, academic support, student services, and other activities are included in Note 14 of the financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015



Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This Statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due and the need for external financing.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. The second part details cash received for non-operating, non-investing, and non-capital financing purposes. The third part shows cash flows from capital and related financing activities and deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Change in Net Position.

A summarized Statement of Cash Flows for the years ended June 30, 2015 and 2014, is presented below:

| | (in thousands) | |
|--|-------------------|-------------------|
| | 2015 | 2014 |
| Cash Provided By (Used in) | | |
| Operating activities | \$ (243,595) | \$ (219,211) |
| Non-capital financing activities | 274,233 | 222,187 |
| Capital and related financing activities | 2,942 | (2,150) |
| Investing activities | 509 | 352 |
| Net change in cash and cash equivalents | 34,089 | 1,178 |
| Cash balance, beginning of year | 124,469 | 123,291 |
| Cash balance, end of year | <u>\$ 158,558</u> | <u>\$ 124,469</u> |

- Operating activities mainly consist of cash receipts from student tuition and cash payments for salaries, benefits, supplies, other operating expenses, utilities, insurance, and other items related to the instructional program.
- Non-capital financing activities are primarily comprised of State apportionment, property taxes, and Federal, State and local grants for other than capital purposes. State apportionments and property taxes received account for 55.5 percent of the total cash provided by non-capital financing activities. Additionally, cash received from non-capital related grants and contracts accounts for 34.2 percent of the total cash provided by non-capital financing activities.
- Capital financing activities are mostly made up of the purchase or sale of capital assets, principal and interest payments on any debt issued and proceeds received from any new debt issuances, and cash sources or uses from Federal, State, and local grants for capital purposes. The increase in cash receipts in this category is primarily made up of revenue received in 2015 for schedule maintenance projects that was not received in 2014.
- The cash from investing activities is interest earned on cash in banks, and on cash invested through the Orange County Investment Pool. The increase in cash received from investing activities is due to the increase in interest rates as well as an increase in the capital outlay and retiree benefits fund balances.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2015, the District had \$404 million invested in net capital assets. Total capital assets of \$551.3 million consist of land, buildings and building improvements, construction in progress, vehicles, data processing equipment, and other office equipment. These assets have accumulated depreciation of \$147.3 million over the years they have been in service. During 2014-2015, \$2.3 million of building and improvement projects completed construction. In addition, \$4.7 million of construction in progress occurred during 2014-2015. Depreciation expense of \$11.8 million was recorded for the fiscal year.

Capital additions primarily comprise replacement, renovation, and new construction. As the District nears completion on its current capital construction program, an inverse relationship exists between the Buildings and improvements and Construction in progress accounts. As more projects are completed, their accumulated expenses are reclassified from Construction in progress to Buildings and improvements. During 2014-2015, capital additions of completed construction projects included the Building 2000 Stairs and Parking Lot Repairs at Fullerton College, HVAC replacement and Hallway LED Retrofit at Cypress College, and Elevator Replacement and Repair project at the Anaheim Campus.

Note 6 to the financial statements provides additional information on capital assets. A summary of capital assets, net of depreciation, is presented below:

| | (in thousands) | |
|----------------------------|-------------------|-------------------|
| | 2015 | 2014 |
| Land and improvements | \$ 16,999 | \$ 16,379 |
| Buildings and improvements | 378,075 | 386,195 |
| Equipment | 6,190 | 5,783 |
| Construction in progress | 2,740 | 1,016 |
| Net capital assets | <u>\$ 404,004</u> | <u>\$ 409,373</u> |

Debt Administration

At June 30, 2015, the District had \$426.3 million in debt primarily made up of \$213.8 million from general obligation bonds; \$5.0 million from Self-Insurance claims payable; \$7.6 million from compensated absences payable; \$60.6 million as the net OPEB obligation which represents the cumulative difference between the District's actuarially determined Annual Required Contribution and the amount the District made in contributions for postemployment medical benefit premium costs, and \$139.3 million as the aggregate net pension obligation which represents the proportionate share of net pension liability of CalSTRS and CalPERS based on GASB Statements No. 68 and No. 71. (See Note 12.)

The general obligation bonds were issued to fund various projects related to construction, purchase and renovation of instructional facilities, laboratories, centers, administrative facilities, and parking structures. Debt payments on the bonds will be funded through property tax receipts collected over the term of the bonds. The District's bond rating of AA has not changed from the prior year.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

As reflected in the \$60.6 million net OPEB obligation, these financial statements include a liability for retiree benefits, in accordance with GASB Statement No. 45, which requires districts to recognize an expense on their financial statements for the sum of ongoing annual out-of-pocket retiree benefit costs, plus an amortized annual actuarially determined amount necessary to recognize the entire unfunded obligation over a period not to exceed 30 years. Based on an actuarial study dated October 2014, the District's actuarially determined unfunded liability was projected at \$153.4 million. As of June 30, 2015, the District had \$70.2 million set aside for retiree health benefits. The amount is not currently held in an irrevocable trust, thus it cannot be accounted against our unfunded liability.

Note 9 to the financial statements provides additional information on long-term liabilities. A summary of long-term obligations is presented below:

| | (in thousands) | |
|----------------------------------|-------------------|---------------------|
| | 2015 | 2014 as restated |
| Long-term obligations | | |
| General obligation bonds | \$ 213,793 | \$ 224,890 |
| Claims payable | 5,033 | 5,034 |
| Compensated absences | 7,609 | 7,018 |
| Net OPEB obligation | 60,557 | 53,204 |
| Aggregate net pension obligation | 139,325 | 176,535 |
| Total long-term obligations | 426,317 | 466,681 |
| Less current portion | (18,786) | (17,206) |
| Long-term portion | <u>\$ 407,531</u> | <u>\$ 449,475</u> |

District's Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs, and donors for student loans and scholarships. The District's fiduciary activities are excluded from these financial statements since these resources cannot be used to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Economic Factors that May Affect the Future

As of June 30, 2015, the District ended the fiscal year with a healthy surplus due to prudent fiscal management in previous years. The 2015-2016 State budget is considered one of the best budgets approved in many years. The adopted budget contains \$115 billion in General Fund expenditures, \$7 billion more than in 2014-2015. We continue to experience an upward trend in the State's economy, which has led to General Fund revenues again surpassing estimates. The underestimation of revenues has led to large amounts of one-time funds. The budget addressed the continuing concern of significant deferrals by completely eliminating all deferral from the community college system. Based on the information currently available, the District believes it is in good financial shape for the 2015-2016 fiscal year. As a reminder even though Proposition 30 passed, its tax increases, which included a 0.25 percent sales tax increase and a personal income tax increase for high income earners, are only temporary fixes and will phase out on December 31, 2016 and December 31, 2018, respectively. Barring any offset in revenues or other alternatives to offset these expirations, the temporary nature of Proposition 30 could have a significant impact on the District's future funding. There are several unknown factors that could still negatively affect the 2015-2016 budget including the State's estimate of revenues that would be collected from the tax increase for the Education Protection Funds (EPA), student enrollment fees collected, and the amount of redevelopment funds flowing to schools. There is currently a \$35 million shortfall in the 2015-2016 apportionment funding report for community colleges that impact the District by \$1.1 million. The economic position of the District is closely tied to that of the State of California and until the overall economy regains its strength, the California State budget, and thus the California Community College's management will continue to closely monitor the State budget information and will maintain a close watch over resources to sustain our ability to react to internal and external issues.

Also of significant concern is the increase of the employer contribution rate for STRS and PERS as part of the State's adopted STRS and PERS Funding Plan. STRS and PERS employer contribution rate will increase every year through 2020-2021. This plan will cumulatively increase the District's STRS and PERS employer contribution rate from 10.73 percent and 11.847 percent in 2015-2016 to 19.1 percent and 20.4 percent in 2020-2021 respectively, which will have an estimated cumulative impact of \$11.8 million for the District.

Other than the concerns discussed above, the District is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, students, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, please contact the Vice Chancellor, Finance and Facilities, North Orange County Community College District, 1830 West Romney Drive, Anaheim, CA 92801.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET POSITION - PRIMARY GOVERNMENT JUNE 30, 2015

ASSETS

Current Assets

| | |
|--|--------------------|
| Cash and cash equivalents - unrestricted | \$ 7,611,060 |
| Investments - unrestricted | 94,230,495 |
| Investments - restricted | 56,716,031 |
| Accounts receivable | 6,173,787 |
| Student loans receivable | 747,693 |
| Due from fiduciary funds | 5,402,246 |
| Prepaid expenses | 117,467 |
| Stores inventories | 585,995 |
| Other current assets | 58 |
| Total Current Assets | 171,584,832 |

Noncurrent Assets

| | |
|---|--------------------|
| Nondepreciable capital assets | 17,496,212 |
| Depreciable capital assets, net of depreciation | 386,507,715 |
| Total Noncurrent Assets | 404,003,927 |

TOTAL ASSETS

575,588,759

DEFERRED OUTFLOWS OF RESOURCES

| | |
|---|-------------------|
| Deferred charge on refunding | 3,793,943 |
| Current year pension contribution | 11,805,175 |
| Total Deferred Outflows of Resources | 15,599,118 |

LIABILITIES

Current Liabilities

| | |
|----------------------------------|-------------------|
| Accounts payable | 18,343,535 |
| Accrued interest payable | 1,348,088 |
| Due to fiduciary funds | 3,657,503 |
| Unearned revenue | 3,142,383 |
| Compensated absences | 3,311,347 |
| Bonds payable | 15,475,000 |
| Total Current Liabilities | 45,277,856 |

Noncurrent Liabilities

| | |
|---|--------------------|
| Compensated absences | 4,297,414 |
| Claims liability | 5,033,528 |
| Bonds payable | 198,318,318 |
| Net other postemployment benefits (OPEB) obligation | 60,556,658 |
| Aggregate net pension obligation | 139,324,996 |
| Total Noncurrent Liabilities | 407,530,914 |

TOTAL LIABILITIES

452,808,770

DEFERRED INFLOWS OF RESOURCES

| | |
|--|-------------------|
| Net change in proportionate share of net pension obligation | 2,708,941 |
| Difference between projected and actual earnings on pension plan investments | 38,827,016 |
| Total Deferred Inflows of Resources | 41,535,957 |

NET POSITION

| | |
|----------------------------------|----------------------|
| Net investment in capital assets | 195,507,435 |
| Restricted for: | |
| Debt service | 18,669,544 |
| Capital projects | 32,397,777 |
| Educational programs | 5,034,412 |
| Unrestricted | (154,766,018) |
| TOTAL NET POSITION | \$ 96,843,150 |

The accompanying notes are an integral part of these financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2015

OPERATING REVENUES

| | |
|--|-------------------|
| Student Tuition and Fees | \$ 44,360,731 |
| Less: Scholarship discounts and allowances | (24,252,559) |
| Net tuition and fees | <u>20,108,172</u> |

| | |
|--|------------------|
| Auxiliary enterprise sales and charges | <u>5,228,336</u> |
|--|------------------|

| | |
|---------------------------------|--------------------------|
| TOTAL OPERATING REVENUES | <u>25,336,508</u> |
|---------------------------------|--------------------------|

OPERATING EXPENSES

| | |
|--|-------------------|
| Salaries | 135,945,855 |
| Employee benefits | 45,892,415 |
| Supplies, materials, and other operating expenses and services | 31,164,415 |
| Student financial aid | 56,059,322 |
| Equipment, maintenance, and repairs | 7,195,634 |
| Depreciation | <u>11,767,409</u> |

| | |
|---------------------------------|---------------------------|
| TOTAL OPERATING EXPENSES | <u>288,025,050</u> |
|---------------------------------|---------------------------|

| | |
|-----------------------|-----------------------------|
| OPERATING LOSS | <u>(262,688,542)</u> |
|-----------------------|-----------------------------|

NONOPERATING REVENUES (EXPENSES)

| | |
|--|------------------|
| State apportionments, noncapital | 83,436,741 |
| Local property taxes, levied for general purposes | 68,648,632 |
| Taxes levied for other specific purposes | 18,826,198 |
| Federal grants and contracts, noncapital | 57,837,112 |
| State grants and contracts, noncapital | 28,553,500 |
| State taxes and other revenues | 8,477,784 |
| Investment income | 509,064 |
| Interest expense on capital related debt | (6,448,388) |
| Investment income on capital asset-related debt, net | 36,041 |
| Transfers from fiduciary funds | 25,000 |
| Transfers to fiduciary funds | (6,603,189) |
| Other nonoperating revenues | <u>5,837,849</u> |

| | |
|---|---------------------------|
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>259,136,344</u> |
|---|---------------------------|

| | |
|-----------------------------------|---------------------------|
| LOSS BEFORE OTHER REVENUES | <u>(3,552,198)</u> |
|-----------------------------------|---------------------------|

OTHER REVENUES

| | |
|-------------------------|------------------|
| State revenues, capital | <u>4,092,971</u> |
|-------------------------|------------------|

| | |
|-------------------------------|-----------------------|
| CHANGE IN NET POSITION | <u>540,773</u> |
|-------------------------------|-----------------------|

| | |
|---|--------------------------|
| NET POSITION, BEGINNING OF YEAR, AS RESTATED | <u>96,302,377</u> |
|---|--------------------------|

| | |
|----------------------------------|------------------------------------|
| NET POSITION, END OF YEAR | <u><u>\$ 96,843,150</u></u> |
|----------------------------------|------------------------------------|

The accompanying notes are an integral part of these financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|----------------------|
| Tuition and fees | \$ 20,023,156 |
| Auxiliary sales | 5,228,336 |
| Payments to or on behalf of employees | (173,212,407) |
| Payments to vendors for supplies and services | (39,574,754) |
| Payments to students for scholarships and grants | (56,059,322) |
| Net Cash Flows From Operating Activities | (243,594,991) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|--------------------|
| State apportionments | 83,436,741 |
| Property taxes - nondebt related | 68,648,632 |
| Grants and contracts | 93,870,143 |
| State taxes and other revenues | 28,047,990 |
| Other nonoperating revenues | 229,590 |
| Net Cash Flows From Noncapital Financing Activities | 274,233,096 |

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

| | |
|---|------------------|
| Purchase of capital assets | (4,539,283) |
| State revenue, capital projects | 4,092,971 |
| Property taxes - related to capital debt | 17,318,982 |
| Proceeds from capital debt | 3,103,365 |
| Principal paid on capital debt | (14,200,000) |
| Interest paid on capital debt | (2,870,324) |
| Interest received on capital asset-related debt | 36,041 |
| Net Cash Flows From Capital Financing Activities | 2,941,752 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|------------------------------------|---------|
| Interest received from investments | 509,064 |
|------------------------------------|---------|

NET CHANGE IN CASH AND CASH EQUIVALENTS

34,088,921

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

124,468,665

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 158,557,586

The accompanying notes are an integral part of these financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS - PRIMARY GOVERNMENT, CONTINUED FOR THE YEAR ENDED JUNE 30, 2015

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|-------------------------|
| Operating Loss | \$ (262,688,542) |
| Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities: | |
| Depreciation expense | 11,767,409 |
| Changes in Assets, Liabilities, Deferred Inflows and Deferred Outflows of Resources: | |
| Receivables | (85,016) |
| Stores inventories | 45,913 |
| Other assets | 81,947 |
| Current year pension contribution | (1,052,317) |
| Accounts payable and accrued liabilities | 1,506,795 |
| Unearned revenue | (1,342,565) |
| Difference between projected and actual earnings on pension plan investments | 38,827,016 |
| Net change in proportionate share of net pension obligation | 2,708,941 |
| Aggregate net pension obligation | (41,308,186) |
| Net OPEB obligation | 7,352,427 |
| Compensated absences | 591,187 |
| Total Adjustments | 19,093,551 |
| Net Cash Flows From Operating Activities | \$ (243,594,991) |

CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:

| | |
|--|-----------------------|
| Cash in banks | \$ 7,611,060 |
| Cash in county treasury | 150,946,526 |
| Total Cash and Cash Equivalents | \$ 158,557,586 |

NON CASH TRANSACTIONS

| | |
|---|--------------|
| On behalf payments for benefits (see Note 12) | \$ 4,164,436 |
|---|--------------|

The accompanying notes are an integral part of these financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2015

| | Trust Funds | Agency Funds |
|-----------------------------|----------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 6,765,714 | \$ 39,474 |
| Investments | 72,255,291 | - |
| Accounts receivable | 2,553,471 | 19,000 |
| Student loans receivable | 619,554 | 11,747 |
| Due from primary government | 3,587,327 | 70,176 |
| Prepaid expenses | 500 | - |
| Total Assets | 85,781,857 | \$ 140,397 |
| LIABILITIES | | |
| Accounts payable | 356,857 | \$ - |
| Due to primary government | 5,402,246 | - |
| Unearned revenue | 3,975,666 | - |
| Due to student groups | 3,650,029 | 140,397 |
| Total Liabilities | 13,384,798 | \$ 140,397 |
| NET POSITION | | |
| Unreserved | 72,396,559 | |
| Total Net Position | \$ 72,397,059 | |

The accompanying notes are an integral part of these financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FOR THE YEAR ENDED JUNE 30, 2015

| | <u>Trust Funds</u> |
|---|-----------------------------|
| ADDITIONS | |
| Local revenues | <u>\$ 1,862,214</u> |
| DEDUCTIONS | |
| Classified salaries | 133,335 |
| Employee benefits | 21,487 |
| Books and supplies | 61,518 |
| Services and other operating expenditures | 423,079 |
| Capital outlay | <u>3,588</u> |
| Total Deductions | <u>643,007</u> |
| OTHER FINANCING SOURCES (USES) | |
| Transfers from primary government | 6,603,189 |
| Transfers to primary government | <u>(25,000)</u> |
| Total Other Financing Sources (Uses) | <u>6,578,189</u> |
| Change in Net Position | <u>7,797,396</u> |
| Net Position - Beginning of Year | <u>64,599,663</u> |
| Net Position - Ending | <u><u>\$ 72,397,059</u></u> |

The accompanying notes are an integral part of these financial statements.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - ORGANIZATION

The North Orange County Community College District (the District) is a comprehensive, public, two-year institution offering higher education in the Counties of Orange and Los Angeles in the State of California and is governed by an elected Board of Trustees. The District is comprised of two college campuses, Cypress College and Fullerton College, the District office, a vocational and adult center, the School of Continuing Education, which offers courses and programs at the Anaheim campus, the Cypress College campus, the Wilshire campus, and other off-site locations. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61. The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in accounting principles generally accepted in the United States of America. The basic criteria for including a component unit are (1) the economic resources held or received by the other entity are entirely or almost entirely for the direct benefit of the District, (2) the District is entitled to, or has the ability to otherwise access, a majority of the economic resources held or received by the other entity, and (3) the other entity's resources to which the District is entitled or has the ability to otherwise access are significant to the District. If any of these criteria are not met, the final criterion for including a component unit is whether the other entity is closely related to, or financially integrated with, the District. The District identified no component units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 and as amended by GASB Statements No. 37, No. 38, No. 39, and No. 61. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective which was previously reported. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. The significant accounting policies followed by the District in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. Additionally, the District's policies comply with the California Community Colleges Chancellor's Office *Budget and Accounting Manual*. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, operating revenues consist primarily of student fees and auxiliary activities through the bookstore and cafeteria.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Nonexchange transactions, in which the District receives value without directly giving equal value in return, such as State apportionments, property taxes, grants, entitlements, and donations are classified as nonoperating revenue. Federal and State grants received to provide direct grants to students are classified as nonoperating revenues because the District does not generally receive any direct benefit from the grants. Eligibility requirements may include time and/or purpose requirements. Property tax revenues are recognized in the fiscal year in which they are received. State apportionment revenue is earned based upon criteria set forth from the Community College Chancellor's Office and includes reporting of full-time equivalent students (FTES). The corresponding apportionment revenue is recognized in the period the FTES are generated.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements No. 37, No. 38, No. 39, and No. 61. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
 - Statement of Net Position - Primary Government
 - Statement of Revenues, Expenses, and Change in Net Position - Primary Government
 - Statement of Cash Flows - Primary Government
 - Financial Statements for the Fiduciary Funds including:
 - Statement of Fiduciary Net Position
 - Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of one year or less from the date of acquisition. Cash equivalents also include unrestricted cash with the County treasury for purposes of the Statement of Cash Flows. Restricted cash and cash equivalents represent balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held at June 30, 2015, are stated at fair value. Fair value is estimated based on quoted market prices at year-end. Short-term investments have an original maturity date greater than three months, but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase.

Restricted Investments

Restricted investments arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted investments represent those required by debt covenants to be set aside by the District for the purpose of satisfying certain requirements of the bonded debt issuance.

Accounts Receivable

Accounts receivable include amounts due from Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff; the majority of each residing in the State of California. The District does not record an allowance for uncollectible accounts because collectibility of the receivables from such sources is probable. When receivables are determined to be uncollectible, a direct write-off is recorded.

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30, 2015.

Stores Inventories

Stores inventories consist primarily of bookstore merchandise held for resale to the students and faculty of the colleges. In addition, the District warehouse holds some inventory of paper and office supplies for daily operational needs. Inventories are stated at cost, utilizing the average cost method. The cost is recorded as an expense as the inventory is consumed.

Debt Issuance Costs, Premiums, and Discounts

Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs, are amortized over the life of the bonds using the straight-line method.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the deferred charges on the refunding of general obligation bonds and current year pension contributions.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for the unamortized amount on net change in proportionate share of net pension obligation and for the difference between projected and actual earnings on pension plan investments specific to the net pension liability.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Capital Assets and Depreciation

Capital assets are stated at cost at the date of acquisition or fair value at the date of gift. The District's capitalization policy includes all items with a unit cost of \$5,000 (for equipment) and an estimated useful life of greater than one year. Buildings, renovations to buildings, infrastructure, and land improvements that cost more than \$150,000, significantly increase the value, or extend the useful life of the structure, are capitalized. Routine repair and maintenance costs are charged to operating expenses in the year in which the expense is incurred. Depreciation of equipment and vehicles, facilities, and other physical properties is provided using the straight-line method over the estimated useful lives of the respective assets, or in the case of assets acquired under capital leases, the shorter of the lease term or useful life. Costs for construction in progress are capitalized when incurred.

The following estimated useful lives are used to compute depreciation:

| | |
|----------------------------|------------|
| Land improvements | 50 years |
| Buildings and improvements | 50 years |
| Machinery and equipment | 5-20 years |

Unearned Revenue

Unearned revenue is recorded to the extent that cash received from Federal programs, State special projects, other programs, and fees, has not been earned.

Noncurrent Liabilities

Noncurrent liabilities include compensated absences, claims payable, bonds payable, and OPEB obligations with maturities greater than one year.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Compensated Absences

Compensated absences are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year-end as liabilities of the District. The District also participates in and accrues "load banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for eligible employees when they retire.

Net Position

GASB Statements No. 34 and No. 35 report equity as "Net Position" which represents the difference between assets and liabilities. The net position is classified according to external donor restrictions or availability of assets for satisfaction of District obligations according to the following net position categories:

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. To the extent debt has been incurred, but not yet expended for capital assets, such accounts are not included as a component invested in capital assets – net of related debt.

Restricted: Net position is reported as restricted when there are limitations imposed on their use, either through enabling legislation adopted by the District, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

Unrestricted: Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report \$56,101,733 of restricted net position.

Operating Revenues and Expenses

Classification of Revenues - The District has classified its revenues as either operating or nonoperating. Certain significant revenue streams relied upon for operation are classified as nonoperating as defined by GASB Statements No. 34 and 35. Classifications are as follows:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as, student tuition and fees, net of scholarship discounts and allowances, and sales and services of auxiliary enterprises.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Nonoperating revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as State apportionments, property taxes, investment income, Federal, State, and local grants and contracts, gifts and contributions, and other revenue sources defined in GASB Statements No. 34 and 35.

Classification of Expenses - Nearly all of the District's expenses are from exchange transactions and are classified as either operating or nonoperating according to the following criteria:

Operating expenses - Operating expenses are necessary costs to provide the services of the District and include employee salaries and benefits, supplies, operating expenses, and student financial aid.

Nonoperating expenses - Nonoperating expenses include interest expense and other expenses not directly related to the services of the District.

State Apportionments

Certain current year apportionments from the State are based on financial and statistical information of the previous year. Any corrections due to the recalculation of the apportionment are made in February of the subsequent year and are recorded in the District's financial records when received. When known and measurable, these recalculations and corrections are accrued in the year in which the FTES are generated.

Property Taxes

Property taxes are assessed and levied by the County of Orange on the fourth Monday of September of each year and they become an enforceable lien on real property on January 1 of the same year. Secured taxes are payable to the District in two installments, on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. Tax remittances are paid net of a County administrative charge.

The District has reported property tax revenue only for taxes levied and due within the fiscal year. The District participates in the Orange County Teeter Plan and is paid all current year taxes in the year levied. The Teeter Plan allows the County to follow the accrual method of accounting to allocate property tax revenues based on the total amount of property taxes billed but not yet collected. A receivable has not been recognized in the basic financial statements for property taxes due to the fact that any receivable would be offset by a payable to the State for State apportionment purposes.

The voters of the District passed a General Obligation Bond in March 2002 for the acquisition, construction, and rehabilitation of facilities. As a result of the passage of the Bond, property taxes are assessed on the property within the District specifically for the repayment of the debt incurred. The taxes are assessed, billed, and collected by the County of Orange and remitted to the District.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Board of Governors Grants (BOGG) and Fee Waivers

Student tuition and fee revenue is reported net of allowances and fee waivers approved by the Board of Governors through BOGG fee waivers in the Statement of Revenues, Expenses, and Change in Net Position. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that fee waivers have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, and Federal Work-Study programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to students in the form of reduced tuition. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the related *Compliance Supplement*.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Interfund Activity

Interfund transfers and interfund receivables and payables for governmental activities are eliminated during the consolidation process in the Primary Government and Fiduciary Funds' financial statements, respectively.

Change in Accounting Principles

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of State and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled, and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a State or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a State or local government employer (or non-employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a State or local government employer or non-employer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a State or local government employer or non-employer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or non-employer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or non-employer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2014, by \$169,880,324. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources. The restatement does not include deferred inflows of resources, as the information was available.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of State and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and No. 68 with regard to the following issues:

- Information that is required to be presented as notes to the ten-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.
- Accounting and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions.
- Timing of employer recognition of revenue for the support of non-employer contributing entities not in a special funding situation.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of State and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, the OPEB plan administrator, and the plan members.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of State and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

NOTE 3 - CASH AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit receipts and collections of monies with their County Treasurer (*Education Code* Section (ECS) 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which are recorded on the amortized cost basis.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

| Authorized Investment Type | Maximum Remaining Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|----------------------------------|---------------------------------------|--|
| Local Agency Bonds, Notes, Warrants | 5 years | None | None |
| Registered State Bonds, Notes, Warrants | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptance | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% of base | None |
| Medium-Term Corporate Notes | 5 years | 30% | None |
| Mutual Funds | N/A | | 10% |
| Money Market Mutual Funds | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | 5 years | 20% | None |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |
| Joint Powers Authority Pools | N/A | None | None |

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, consist of the following:

| | |
|--------------------------------|-----------------------|
| Primary government | \$ 158,557,586 |
| Fiduciary funds | 79,060,479 |
| Total Deposits and Investments | <u>\$ 237,618,065</u> |
| Cash on hand and in banks | \$ 14,191,248 |
| Cash in revolving funds | 225,000 |
| Investments | 223,201,817 |
| Total Deposits and Investments | <u>\$ 237,618,065</u> |

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the Orange County Educational Investment Pool.

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investments by maturity:

| Investment Type | Book Value | Fair Value | Weighted Average Days to Maturity |
|---|-----------------------|-----------------------|-----------------------------------|
| Orange County Educational Investment Pool | <u>\$ 223,201,817</u> | <u>\$ 223,339,207</u> | 370 |

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the Orange County Educational Investment Pool is not required to be rated. However, as of the year-end, the Orange County Educational Investment Pool reflected an AAAM rating by Standard and Poor's Rating Service.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2015, of the District's bank balance of \$9,932,783, \$9,129,820 was exposed to custodial credit risk because it was collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

| | Primary Government | Fiduciary Funds |
|--------------------------|-----------------------|---------------------|
| Federal Government | | |
| Categorical aid | \$ 2,664,933 | \$ - |
| State Government | | |
| Apportionments | 190,230 | - |
| Categorical aid | 349,556 | - |
| Lottery | 2,421,492 | - |
| Other State sources | 15,613 | - |
| Local Government | | |
| Interest | 48,488 | 1,745 |
| Other | 483,475 | 2,570,726 |
| Total | <u>\$ 6,173,787</u> | <u>\$ 2,572,471</u> |
| Student loans receivable | <u>\$ 747,693</u> | <u>\$ 631,301</u> |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund activity within the governmental funds and fiduciary funds, respectively, has been eliminated in the consolidation process of the basic financial statements. Balances owing between the primary governmental and the fiduciary funds are not eliminated in the consolidation process. As of June 30, 2015, the amount owed between the primary government and the fiduciary funds were \$5,402,246 and \$3,657,503, respectively.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers within the funds of the District have been eliminated in the consolidation process. Transfers between the primary government and the fiduciary funds are not eliminated in the consolidation process. During the 2015 fiscal year, the amount transferred to the fiduciary funds from the primary government amounted to \$6,603,189 and the amount transferred to the primary government from the fiduciary funds amounted to \$25,000.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

| | Balance Beginning of Year | Additions | Deductions/ Reclassifications | Balance End of Year |
|--|---------------------------------|----------------|----------------------------------|---------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 14,756,218 | \$ - | \$ - | \$ 14,756,218 |
| Construction in progress | 1,016,211 | 4,711,313 | 2,987,530 | 2,739,994 |
| Total Capital Assets Not Being Depreciated | 15,772,429 | 4,711,313 | 2,987,530 | 17,496,212 |
| Capital Assets Being Depreciated | | | | |
| Land improvements | 2,787,788 | 767,937 | - | 3,555,725 |
| Buildings and improvements | 505,320,139 | 2,249,566 | - | 507,569,705 |
| Machinery and equipment | 21,021,868 | 1,656,754 | 9,128 | 22,669,494 |
| Total Capital Assets Being Depreciated | 529,129,795 | 4,674,257 | 9,128 | 533,794,924 |
| Total Capital Assets | 544,902,224 | 9,385,570 | 2,996,658 | 551,291,136 |
| Less Accumulated Depreciation | | | | |
| Land improvements | 1,165,229 | 148,238 | - | 1,313,467 |
| Buildings and improvements | 119,124,973 | 10,369,469 | - | 129,494,442 |
| Machinery and equipment | 15,238,726 | 1,249,702 | 9,128 | 16,479,300 |
| Total Accumulated Depreciation | 135,528,928 | 11,767,409 | 9,128 | 147,287,209 |
| Net Capital Assets | \$ 409,373,296 | \$ (2,381,839) | \$ 2,987,530 | \$ 404,003,927 |

Depreciation expense for the year was \$11,767,409.

Interest expense on capital related debt for the year ended June 30, 2015, was \$6,491,081. Of this amount, \$42,693 was capitalized.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

| | Primary Government | Fiduciary Funds |
|-----------------|-----------------------|--------------------|
| Accrued payroll | \$ 6,708,030 | \$ - |
| Services | 10,684,221 | 356,857 |
| Construction | 951,284 | - |
| Total | \$ 18,343,535 | \$ 356,857 |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2015, consisted of the following:

| | Primary Government | Fiduciary Funds |
|-----------------------|-----------------------|---------------------|
| State categorical aid | \$ 2,963,111 | \$ - |
| Other State revenues | 22,299 | - |
| Student fees | - | 3,975,666 |
| Other local revenues | 156,973 | - |
| Total | <u>\$ 3,142,383</u> | <u>\$ 3,975,666</u> |

NOTE 9 - LONG-TERM OBLIGATIONS

Long-Term Obligations Summary

The changes in the District's long-term obligations during the 2015 fiscal year consisted of the following:

| | Balance Beginning of Year (as restated) | Additions | Deductions | Balance End of Year | Due in One Year |
|---|--|----------------------|----------------------|---------------------------|----------------------|
| Bonds Payable | | | | | |
| 2003B General obligation bonds | \$ 61,634,953 | \$ 3,103,365 | \$ 4,545,000 | \$ 60,193,318 | \$ - |
| 2005 General obligation refunding bonds | 19,370,000 | - | 6,780,000 | 12,590,000 | 12,590,000 |
| 2013 General obligation refunding bonds | 143,885,000 | - | 2,875,000 | 141,010,000 | 2,885,000 |
| Total Bonds Payable | <u>224,889,953</u> | <u>3,103,365</u> | <u>14,200,000</u> | <u>213,793,318</u> | <u>15,475,000</u> |
| Other Liabilities | | | | | |
| Compensated absences/Load banking | 7,017,574 | 591,187 | - | 7,608,761 | 3,311,347 |
| Claims payable | 5,033,528 | - | - | 5,033,528 | - |
| Net OPEB obligation | 53,204,231 | 11,630,172 | 4,277,745 | 60,556,658 | - |
| Aggregate net pension obligation | 180,633,182 | - | 41,308,186 | 139,324,996 | - |
| Total Other Liabilities | <u>245,888,515</u> | <u>12,221,359</u> | <u>45,585,931</u> | <u>212,523,943</u> | <u>3,311,347</u> |
| Total Long-Term Obligations | <u>\$ 470,778,468</u> | <u>\$ 15,324,724</u> | <u>\$ 59,785,931</u> | <u>\$ 426,317,261</u> | <u>\$ 18,786,347</u> |

Description of Debt

Payments on the general obligation bonds are made by the bond interest and redemption fund with local property tax revenues. The compensated absences/load banking liability will be paid by the fund for which the employee worked. The claims payable liability and the pay-as-you-go portion of the Net OPEB obligation will be paid by the Internal Service Fund. Pension expense related to the Aggregate net pension obligation will be paid by the fund for which the employee worked. See Note 12 for further details of the Aggregate net pension obligation.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Bonded Debt

Bonds Payable

On March 5, 2002, the voters of the District approved the issuance of \$239,000,000 general obligation bonds to be used to finance the acquisition, construction, and modernization of certain property and District facilities.

2003B General Obligation Bonds

On December 23, 2003, \$99,999,001 of North Orange County Community College District, Election of 2002, Series 2003B Bonds were issued with a final maturity date of August 1, 2028, and interest rates ranging from 2.00 percent to 5.44 percent, depending on the maturity of the related bonds. Interest is payable semiannually on February 1 and August 1 of each year. The outstanding principal balance of these bonds at June 30, 2015, was \$60,193,318.

2005 General Obligation Refunding Bonds

On April 6, 2005, \$164,935,000 of North Orange County Community College District, 2005 General Obligation Refunding Bonds were issued to advance refund and defease a portion of the District's Election of 2002 General Obligation Bonds, Series A maturing on and after August 1, 2013, and the District's Election of 2002 General Obligation Bonds, Series 2003B, and together with the Series A the "Refunded Bonds" maturing from August 1, 2015 through August 1, 2020, and to pay all legal, financial, and contingent costs in connection with the issuance of the Bonds. The Refunding Bonds defeased \$153,250,000 of the old debt with a final maturity date of August 1, 2015. Interest rates range from 3.00 percent to 5.00 percent, depending on the maturity of the related bonds. Interest is payable semiannually on February 1 and August 1 of each year. The outstanding principal balance of these bonds at June 30, 2015, was \$12,590,000.

2013 General Obligation Refunding Bonds

On January 24, 2013, \$145,910,000 of North Orange County Community College District, 2005 General Obligation Refunding Bonds were issued to advance refund and defease a portion of the District's 2005 General Obligation Refunding Bonds maturing on and after August 1, 2013, and to pay all legal, financial, and contingent costs in connection with the issuance of the Bonds. The Refunding Bonds defeased \$129,945,000 of the old debt with a final maturity date of August 1, 2023. Interest rates range from 0.40 percent to 2.65 percent, depending on the maturity of the related bonds. The Bonds are payable semiannually on February 1 and August 1 of each year. The outstanding principal balance of these bonds at June 30, 2015, was \$141,010,000.

The outstanding general obligation bonded debt is as follows:

| Issue Date | Maturity Date | Interest Rate | Original Issue | Bonds Outstanding July 1, 2014 | Issued | Accreted Interest Addition | Redeemed | Bonds Outstanding June 30, 2015 |
|------------|---------------|---------------|----------------|--------------------------------|-------------|----------------------------|----------------------|---------------------------------|
| 2003 | 2029 | 2.00%-5.44% | \$ 99,999,001 | \$ 61,634,953 | \$ - | \$ 3,103,365 | \$ 4,545,000 | \$ 60,193,318 |
| 2005 | 2016 | 3.00%-5.00% | 164,935,000 | 19,370,000 | - | - | 6,780,000 | 12,590,000 |
| 2013 | 2024 | 0.40%-2.65% | 145,910,000 | 143,885,000 | - | - | 2,875,000 | 141,010,000 |
| | | | | <u>\$ 224,889,953</u> | <u>\$ -</u> | <u>\$ 3,103,365</u> | <u>\$ 14,200,000</u> | <u>\$ 213,793,318</u> |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The 2003B General Obligation Bonds mature through 2029 as follows:

| Fiscal Year | Principal (Including accreted interest to date) | Accreted Interest* | Total |
|-------------|---|-----------------------|-----------------------|
| 2021-2025 | \$ 23,474,809 | \$ 12,150,191 | \$ 35,625,000 |
| 2026-2029 | 36,718,509 | 34,741,491 | 71,460,000 |
| Total | <u>\$ 60,193,318</u> | <u>\$ 46,891,682</u> | <u>\$ 107,085,000</u> |

* Interest that is accrued at a discount from the face value of the bonds, and no interest payment is made until maturity.

The 2005 Refunding Bonds mature through 2016 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|-------------|----------------------|-------------------------|----------------------|
| 2016 | <u>\$ 12,590,000</u> | <u>\$ 311,875</u> | <u>\$ 12,901,875</u> |

The 2013 Refunding Bonds mature through 2024 as follows:

| Fiscal Year | Principal | Interest to Maturity | Total |
|-------------|-----------------------|-------------------------|-----------------------|
| 2016 | \$ 2,885,000 | \$ 2,603,164 | \$ 5,488,164 |
| 2017 | 16,905,000 | 2,513,185 | 19,418,185 |
| 2018 | 17,885,000 | 2,320,816 | 20,205,816 |
| 2019 | 18,960,000 | 2,063,938 | 21,023,938 |
| 2020 | 20,140,000 | 1,729,536 | 21,869,536 |
| 2021-2024 | 64,235,000 | 2,917,641 | 67,152,641 |
| Total | <u>\$ 141,010,000</u> | <u>\$ 14,148,280</u> | <u>\$ 155,158,280</u> |

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2015, was \$11,867,872, and contributions made by the District during the year were \$4,277,745. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$2,394,190 and \$(2,631,890), respectively, which resulted in an increase to the net OPEB obligation of \$7,352,427. As of June 30, 2015, the net OPEB obligation was \$60,556,658. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Plan Description

The District currently provides retiree medical coverage to eligible academic and classified employees for the retiree's lifetime. Eligibility requirements vary by employee classification. All participants must have a minimum service of 15 years and be eligible to retire under CalSTRS or CalPERS. Academic and classified employees must be at least 55 and 50 years of age, respectively. The District pays for 100 percent of the premium for retiree coverage, and the retiree pays for the cost of dependant coverage. Membership of the Plan consists of 952 retirees and beneficiaries currently receiving benefits and 1,176 active plan members.

Contribution Information

The contribution requirements are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined feasible by Administration and the Board of Trustees. For fiscal year 2014-2015, the District contributed \$4,277,745 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

| | |
|--|-----------------------------|
| Annual required contribution | \$ 11,867,872 |
| Interest on net OPEB obligation | 2,394,190 |
| Adjustment to annual required contribution | <u>(2,631,890)</u> |
| Annual OPEB cost (expense) | 11,630,172 |
| Contributions made | <u>(4,277,745)</u> |
| Increase in net OPEB obligation | 7,352,427 |
| Net OPEB obligation, beginning of year | <u>53,204,231</u> |
| Net OPEB obligation, end of year | <u><u>\$ 60,556,658</u></u> |

Trend Information

Trend information for the annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2013, 2014, and 2015, was as follows:

| Year Ended June 30, | Annual OPEB Cost | Actual Contribution | Percentage Contributed | Net OPEB Obligation |
|------------------------|---------------------|------------------------|---------------------------|------------------------|
| 2013 | \$ 12,548,165 | \$ 5,004,616 | 40% | \$ 46,010,524 |
| 2014 | 12,546,060 | 5,352,353 | 43% | 53,204,231 |
| 2015 | 11,630,172 | 4,277,745 | 37% | 60,556,658 |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Funding Status and Funding Progress

| | |
|---|-----------------------|
| Actuarial Accrued Liability (AAL) | \$ 153,384,773 |
| Actuarial Value of Plan Assets | - |
| Unfunded Actuarial Accrued Liability (UAAL) | <u>\$ 153,384,773</u> |
| Funded Ratio (Actuarial Value of Plan Assets/AAL) | 0% |
| Covered Payroll | <u>\$ 119,705,611</u> |
| UAAL as Percentage of Covered Payroll | <u>128%</u> |

The above noted actuarial accrued liability was based on the October 2014 actuarial valuation. Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Other Postemployment Benefits Funding Progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations.

In the October 2014 actuarial valuation, the Entry Age Normal cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return, based on the assumed long-term return on Plan assets or employer assets. The cost trend rate used for the Medical, Dental, and Vision Programs reflected an ultimate rate of 4.0 percent. The UAAL is being amortized at a level percentage of payroll method. The actuarial value of assets was not determined in this actuarial valuation.

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, property liability, health benefits, errors, omissions, and natural disasters. These risks are addressed through a combination of participation in public entity risk pools, commercial insurance, and self-insurance. The District is insured for workers' compensation claims and property and liability claims through a combination of self-insurance and commercial insurance.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The District is also a member of the Alliance of Schools for Cooperative Insurance Program (ASCIP) and Schools Excess Liability Fund (SELF) public entity risk pools. The District is subject to various deductible amounts and pays premiums assessed by the pools. The pools are responsible for claims beyond the deductible amount of commercial insurance and provide for high-level umbrella type coverage above certain limits. The pools are operated separately and are independently accountable for their fiscal matters. The pools are not component units of the District for financial reporting purposes. A copy of the most recent audited financial statements may be obtained from ASCIP and SELF.

Estimates of liabilities for claims, both reported and unreported, for workers' compensation liability claims are established by the District's external administrator. The estimates are based on the continuous evaluation of the status of each claim. Estimates of liabilities for the property and liability claims are based on an analysis of individual claims. Management believes that the amounts accrued are adequate to cover such costs.

A number of claims and suits are pending against the District arising out of proposed claim settlements. In the opinion of District administration, the related liability, if any, will not materially affect the financial position of the District. No settlements exceeded insurance coverage during the last three years.

As of June 30, 2015 and 2014, liabilities for claims amounted to \$5,033,528 and \$5,033,528, respectively. Changes in the claims liability amount in the fiscal years 2015 and 2014 are presented below:

| | Workers' Compensation | Property and Liability | Total |
|---|--------------------------|---------------------------|----------------------|
| Liability Balance, July 1, 2013 | \$ 1,699,592 | \$ 937,599 | \$ 2,637,191 |
| Claims and changes in estimates | 2,252,276 | 826,963 | 3,079,239 |
| Claims payments | (262,460) | (420,442) | (682,902) |
| Liability Balance, July 1, 2014 | 3,689,408 | 1,344,120 | 5,033,528 |
| Claims and changes in estimates | 2,211,252 | 946,895 | 3,158,147 |
| Claims payments | (2,211,252) | (946,895) | (3,158,147) |
| Liability Balance, June 30, 2015 | <u>\$ 3,689,408</u> | <u>\$ 1,344,120</u> | <u>\$ 5,033,528</u> |
| Assets available to pay claims at June 30, 2015 | | | <u>\$ 26,761,091</u> |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of CalSTRS and classified employees are members of CalPERS.

The District implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015. As a result, the District reported its proportionate share of the net pension liabilities, pension expense, and deferred inflow of resources for each of the above plans and a deferred outflow of resources for each of the above plans as follows:

| Pension Plan | Proportionate Share of Net Pension Liability | Deferred Outflows of Resources | Proportionate Share of Deferred Inflows of Resources | Proportionate Share of Pension Expense |
|--------------|--|--------------------------------------|--|--|
| CalSTRS | \$ 92,916,230 | \$ 6,289,029 | \$ 22,880,445 | \$ 8,021,671 |
| CalPERS | 46,408,766 | 5,516,146 | 18,655,512 | 4,124,791 |
| Total | <u>\$ 139,324,996</u> | <u>\$ 11,805,175</u> | <u>\$ 41,535,957</u> | <u>\$ 12,146,462</u> |

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement Plan (STRP) administered by CalSTRS. STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:
<http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability, and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and non-employer contributing entity to the STRP.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

| | STRP Defined Benefit Program | |
|---|-----------------------------------|--------------------------------|
| | On or before December 31, 2012 | On or after January 1, 2013 |
| Hire date | December 31, 2012 | January 1, 2013 |
| Benefit formula | 2% at 60 | 2% at 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 60 | 62 |
| Monthly benefits as a percentage of eligible compensation | 2.0% - 2.4% | 2.0% - 2.4% |
| Required employee contribution rate | 8.15% | 8.15% |
| Required employer contribution rate | 8.88% | 8.88% |
| Required State contribution rate | 5.95% | 5.95% |

Contributions

Required member, District, and State of California contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2015, are presented above, and the District's total contributions were \$6,289,029.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

| | |
|---|-----------------------|
| District's proportionate share of net pension liability | \$ 92,916,230 |
| State's proportionate share of net pension liability associated with the District | 56,106,831 |
| Total | <u>\$ 149,023,061</u> |

The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts and the State, actuarially determined. At June 30, 2015, the District's proportion was 0.1590 percent.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

For the year ended June 30, 2015, the District recognized pension expense of \$8,021,671. In addition, the District recognized revenue and pension expense of \$4,843,831 for support provided by the State. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows | Deferred Inflows of Resources |
|---|----------------------|----------------------------------|
| Pension contributions subsequent to measurement date | \$ 6,289,029 | \$ - |
| Difference between projected and actual earnings on pension plan investments | - | 22,880,445 |
| Total | <u>\$ 6,289,029</u> | <u>\$ 22,880,445</u> |

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

| Year Ended June 30, | Amortization |
|------------------------|----------------------|
| 2016 | \$ 5,720,111 |
| 2017 | 5,720,111 |
| 2018 | 5,720,111 |
| 2019 | 5,720,112 |
| Total | <u>\$ 22,880,445</u> |

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---------------------------|------------------------------------|
| Valuation date | June 30, 2013 |
| Measurement date | June 30, 2014 |
| Experience study | July 1, 2006 through June 30, 2010 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.60% |
| Investment rate of return | 7.60% |
| Consumer price inflation | 3.00% |
| Wage growth | 3.75% |

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary investment practice, a best estimate range was determined assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

| <u>Asset Class</u> | <u>Assumed Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---------------------|-------------------------------------|---|
| Global equity | 47% | 4.50% |
| Private equity | 12% | 6.20% |
| Real estate | 15% | 4.35% |
| Inflation sensitive | 5% | 3.20% |
| Fixed income | 20% | 0.20% |
| Cash/liquidity | 1% | 0.00% |

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments, and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

| <u>Discount Rate</u> | <u>Net Pension Liability</u> |
|-------------------------------|----------------------------------|
| 1% decrease (6.60%) | \$ 144,832,102 |
| Current discount rate (7.60%) | 92,916,230 |
| 1% increase (8.60%) | 49,627,828 |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

California Public Employees' Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation 2013. This reports and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or age 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2015, are summarized as follows:

| | School Employer Pool (CalPERS) | |
|---|-----------------------------------|--------------------------------|
| | On or before December 31, 2012 | On or after January 1, 2013 |
| Hire date | | |
| Benefit formula | 2% at 55 | 2% at 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service |
| Benefit payments | Monthly for life | Monthly for life |
| Retirement age | 55 | 62 |
| Monthly benefits as a percentage of eligible compensation | 1.1% - 2.5% | 1.0% - 2.5% |
| Required employee contribution rate | 7.000% | 6.000% |
| Required employer contribution rate | 11.771% | 11.771% |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contribution rates are expressed as a percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015, are presented above, and the total District contributions were \$5,516,146.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$46,408,766. The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating college districts, actuarially determined. At June 30, 2015, the District's proportion was 0.4088 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$4,124,791. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|----------------------------------|
| Pension contributions subsequent to measurement date | \$ 5,516,146 | \$ - |
| Net change in proportionate share of net pension obligation | - | 2,708,941 |
| Difference between projected and actual earnings on pension plan investments | - | 15,946,571 |
| Total | <u>\$ 5,516,146</u> | <u>\$ 18,655,512</u> |

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The deferred inflows of resources related to the net change in proportionate share of net pension liability will be amortized over the Expected Average Remaining Service Lives (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2013-2014 measurement period is 3.9 years and the pension expense will be recognized as follows:

| Year Ended June 30, | Amortization |
|------------------------|---------------------|
| 2016 | \$ 902,980 |
| 2017 | 902,980 |
| 2018 | 902,981 |
| Total | <u>\$ 2,708,941</u> |

The deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

| Year Ended June 30, | Amortization |
|------------------------|----------------------|
| 2016 | \$ 3,986,643 |
| 2017 | 3,986,643 |
| 2018 | 3,986,643 |
| 2019 | 3,986,642 |
| Total | <u>\$ 15,946,571</u> |

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

| | |
|---------------------------|------------------------------------|
| Valuation date | June 30, 2013 |
| Measurement date | June 30, 2014 |
| Experience study | July 1, 1997 through June 30, 2011 |
| Actuarial cost method | Entry age normal |
| Discount rate | 7.50% |
| Investment rate of return | 7.50% |
| Consumer price inflation | 2.75% |
| Wage growth | 3.00% |

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Assumed Asset Allocation | Long-Term Expected Real Rate of Return |
|-------------------------------|--------------------------|--|
| Global equity | 47% | 5.25% |
| Global fixed income | 19% | 0.99% |
| Private equity | 12% | 6.83% |
| Real estate | 11% | 4.50% |
| Inflation sensitive | 6% | 0.45% |
| Infrastructure and Forestland | 3% | 4.50% |
| Liquidity | 2% | -0.55% |

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

| Discount Rate | Net Pension Liability |
|-------------------------------|-----------------------|
| 1% decrease (6.50%) | \$ 81,411,569 |
| Current discount rate (7.50%) | 46,408,766 |
| 1% increase (8.50%) | 17,160,395 |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

On-Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for the fiscal year ended June 30, 2015, which amounted to \$4,164,436 (5.679 percent) of salaries subject to CalSTRS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made for CalPERS for the year ended June 30, 2015. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2015.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2015.

Operating Leases

The District has entered into various operating leases for equipment with lease terms in excess of one year. None of these agreements contain bargain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date. The operating lease expense for the year ended June 30, 2015, was approximately \$119,232. Future minimum lease payments under these agreements are as follows:

| Year Ending June 30, | Lease Payments |
|-------------------------|-------------------|
| 2016 | \$ 72,127 |
| 2017 | 15,680 |
| Total | <u>\$ 87,807</u> |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Construction Commitments

As of June 30, 2015, the District had the following commitments with respect to the unfinished capital projects:

| | Remaining Construction Commitment | Expected Date of Completion |
|--|---|-----------------------------------|
| Anaheim Campus Storm Drain Pump Replace | \$ 429,301 | December 1, 2015 |
| Anaheim Campus Build-Out Project | 106,216 | On-going |
| Fullerton Campus Tunnels Improvement | 134,950 | On-going |
| Cypress College North Campus Chiller Project | 119,275 | On-going |
| | <u>\$ 789,742</u> | |

The projects are funded through a combination of general obligation bonds, capital project apportionments from the California Community College Chancellor's Office, and local funds.

NOTE 14 - FUNCTIONAL EXPENSES CLASSIFICATION

The District's operating expenses by functional classification for the fiscal year ended June 30, 2015, are:

| | Salaries and Benefits | Supplies, Material, and Other Expenses and Services | Student Financial Aid | Equipment, Maintenance, and Repairs | Depreciation | Total |
|--|--------------------------|--|-----------------------------|---|----------------------|-----------------------|
| Instructional activities | \$ 99,441,356 | \$ 2,903,729 | \$ - | \$ 4,012,180 | \$ - | \$ 106,357,265 |
| Academic support | 26,138,739 | 2,689,445 | - | 1,226,643 | - | 30,054,827 |
| Student services | 23,620,299 | 2,069,710 | - | 1,324,582 | - | 27,014,591 |
| Plant operations and maintenance | 11,170,268 | 10,474,037 | - | - | - | 21,644,305 |
| Instructional support services | 14,189,499 | 7,155,812 | - | 536,929 | - | 21,882,240 |
| Community services and economic development | 1,949,053 | 312,623 | - | 4,135 | - | 2,265,811 |
| Ancillary services and auxiliary operations | 3,864,656 | 4,341,303 | - | 91,165 | - | 8,297,124 |
| Student aid | - | 14,827 | 56,059,322 | - | - | 56,074,149 |
| Physical property and related acquisitions | 1,464,400 | 1,202,929 | - | - | - | 2,667,329 |
| Depreciation | - | - | - | - | 11,767,409 | 11,767,409 |
| Total | <u>\$ 181,838,270</u> | <u>\$ 31,164,415</u> | <u>\$ 56,059,322</u> | <u>\$ 7,195,634</u> | <u>\$ 11,767,409</u> | <u>\$ 288,025,050</u> |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

| | Primary Government | |
|---|---------------------------|-----------------------------|
| Net Position - Beginning | | \$ 266,182,701 |
| Restatement of Aggregate Net Pension Obligation for implementation of GASB Statement No. 68 | | (180,633,182) |
| Restatement of Deferred Outflows of Resources for implementation of GASB Statement No. 68 | | <u>10,752,858</u> |
| Net Position - Beginning, as restated | | <u><u>\$ 96,302,377</u></u> |

REQUIRED SUPPLEMENTARY INFORMATION

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2015

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ([b - a] / c) |
|--------------------------------|----------------------------------|--|--------------------------------------|-------------------------|------------------------|--|
| June 2010 | \$ - | \$ 166,148,230 | \$ 166,148,230 | 0% | \$ 108,668,918 | 153% |
| July 2012 | - | 163,874,606 | 163,874,606 | 0% | 110,328,606 | 149% |
| October 2014 | - | 153,384,773 | 153,384,773 | 0% | 119,705,611 | 128% |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2015

CalSTRS

| | |
|---|------------------------------|
| District's proportion of the net pension liability | <u>0.1590%</u> |
| District's proportionate share of the net pension liability | \$ 92,916,230 |
| State's proportionate share of the net pension liability associated with the District | <u>56,106,831</u> |
| Total | <u><u>\$ 149,023,061</u></u> |
| District's covered - employee payroll | <u>\$ 70,820,109</u> |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | <u>131.20%</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>77%</u> |

CalPERS

| | |
|---|----------------------|
| District's proportion of the net pension liability | <u>0.4088%</u> |
| District's proportionate share of the net pension liability | <u>\$ 46,408,766</u> |
| District's covered - employee payroll | <u>\$ 43,007,787</u> |
| District's proportionate share of the net pension liability as a percentage of its covered - employee payroll | <u>107.91%</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>83%</u> |

Note : In the future, as data become available, ten years of information will be presented.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2015

CalSTRS

| | |
|--|----------------------|
| Contractually required contribution | \$ 6,289,029 |
| Contributions in relation to the contractually required contribution | <u>6,289,029</u> |
| Contribution deficiency (excess) | <u>\$ -</u> |
| District's covered - employee payroll | <u>\$ 70,822,399</u> |
| Contributions as a percentage of covered - employee payroll | <u>8.88%</u> |

CalPERS

| | |
|--|----------------------|
| Contractually required contribution | \$ 5,516,146 |
| Contributions in relation to the contractually required contribution | <u>5,516,146</u> |
| Contribution deficiency (excess) | <u>\$ -</u> |
| District's covered - employee payroll | <u>\$ 46,862,170</u> |
| Contributions as a percentage of covered - employee payroll | <u>11.77%</u> |

Note : In the future, as data become available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION

JUNE 30, 2015

The North Orange County Community College District was established in 1965 and serves approximately 155 square miles within Orange County and Los Angeles County. The District currently operates two community colleges, Cypress College (CC) and Fullerton College (FC). The college credit programs are housed primarily at CC and FC. The District also provides comprehensive college and continuing education programs through their School of Continuing Education (SCE) at the Anaheim campus, the Cypress College campus, and the Wilshire campus. The District's colleges are accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, which is one of six regional associations that accredit public and private schools, colleges, and universities in the United States. There were no changes in the boundaries of the District during the current year.

BOARD OF TRUSTEES

| <u>MEMBER</u> | <u>OFFICE</u> | <u>TERM EXPIRES</u> |
|---------------------------|------------------------------------|---------------------|
| Mr. M. Tony Ontiveros | President | 2016 |
| Dr. Barbara Dunsheath | Vice President | 2018 |
| Ms. Molly McClanahan | Secretary | 2016 |
| Mr. Leonard L. Lahtinen | Member | 2016 |
| Mr. Jeffrey P. Brown | Member | 2018 |
| Ms. Jacqueline Rodarte | Member | 2016 |
| Vacant | Member | N/A |
| Ms. Tanya Washington | Student Trustee, Cypress College | 2016 |
| Mr. Francisco Aviles Pino | Student Trustee, Fullerton College | 2016 |

ADMINISTRATION

| | |
|-----------------------|--|
| Mr. Fred Williams | Interim Chancellor |
| Mr. Brian Fahnestock | Interim Vice Chancellor, Finance and Facilities |
| Ms. Irma Ramos | Vice Chancellor, Human Resources |
| Dr. Cherry Li-Bugg | Vice Chancellor, Educational Services and Technology |
| Dr. Robert Simpson | President, Cypress College |
| Dr. Greg Schulz | Interim President, Fullerton College |
| Ms. Valentina Purtell | Interim Provost, School of Continuing Education |
| Ms. Deborah Ludford | District Director, Information Services |
| Ms. Kai Stearns Moore | District Director, Public and Governmental Affairs |
| Mr. Kenneth Robinson | Director, Equity and Diversity |

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2015

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Grantor's Number | Program Expenditures |
|---|----------------|-------------------------------------|-------------------------|
| U.S. DEPARTMENT OF EDUCATION | | | |
| Student Financial Assistance Cluster | | | |
| Federal Pell Grant Program | 84.063 | | \$ 45,579,852 |
| Federal Pell Administrative Allowance | 84.063 | | 66,050 |
| Federal Direct Loan | 84.268 | | 5,686,840 |
| Federal Supplemental Educational Opportunity Grant (FSEOG) | 84.007 | | 645,000 |
| Federal FSEOG Administrative Allowance | 84.007 | | 561 |
| Federal Work-Study Program | 84.033 | | 482,821 |
| Federal Work-Study Administrative Allowance | 84.033 | | 60,435 |
| Subtotal Student Financial Assistance Cluster | | | <u>52,521,559</u> |
| COLLEGE COST REDUCTION AND ACCESS ACT (CCRAA) | | | |
| Passed through from California State University Fullerton Auxiliary Services Corporation, Strengthening Transfer Education and Matriculation in STEM | 84.031C | S-5261-NOCCCD | 126,135 |
| Passed through from Rancho Santiago Community College District Title III, Part F, Hispanic-Serving Institutions Science Technology, Engineering and Mathematics and Articulation Programs | 84.031C | P031C110183 | 310,640 |
| HIGHER EDUCATION ACT | | | |
| Title V - Strengthening Basic Skills to Improve Hispanic Student Retention, Persistence, and Success | 84.031S | | 701,405 |
| ADULT EDUCATION AND FAMILY LITERACY ACT (AEFLA) | | | |
| Passed through California Department of Education Adult Education and Family Literacy Act (AEFLA) | 84.002A | 14508, 13978 | 731,383 |
| English Literacy and Civics Education Grant (EL Civics) | 84.002A | 14109 | 625,164 |
| CAREER AND TECHNICAL EDUCATION ACT | | | |
| Passed through from California Community Colleges Chancellor's Office Career and Technical Education Act (CTEA), Title I, Part C | 84.048 | 14-C01-037 | 1,835,101 |
| Title I, CTEA Transitions | 84.048A | 14-112-037 | 65,857 |
| REHABILITATION ACT | | | |
| Passed through from California Department of Rehabilitation College to Career Program | 84.126A | 29301 | 250,000 |
| Workability III Program | 84.126A | 28306 | 175,335 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| Passed through from State Council on Developmental Disabilities Hands on Job Training Projects, Independent Living Skills Program | 93.630 | C35AB1112132/SCDAB11 | 1,239 |
| Passed through from California Community Colleges Chancellor's Office Temporary Assistance to Needy Families (TANF) | 93.558 | [1] | 154,616 |
| Passed through California Public Employee Retirement System (CalPERS) Medicare Part D | 93.770 | [1] | 48,416 |

^[1] Pass-Through Grantor's Number not available.

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED FOR THE YEAR ENDED JUNE 30, 2015

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | CFDA Number | Pass-Through Grantor's Number | Program Expenditures |
|--|----------------|-------------------------------------|-------------------------------------|
| U.S. DEPARTMENT OF TRANSPORTATION | | | |
| Passed through from Orange County Transportation Authority Job Access - Reverse Commute | 20.516 | C-3-1384 | \$ 103,726 |
| U.S. DEPARTMENT OF LABOR | | | |
| Passed through from California Community Colleges Chancellor's Office H-1 B Technical Skills Training | 17.268 | [1] | 182,091 |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| Passed through from California Department of Education Child Nutrition | 10.558 | 04367-CACFP-30-CC-IC | 15,919 |
| U.S. DEPARTMENT OF VETERANS AFFAIRS | | | |
| Veterans Services | 64.117 | | 9,344 |
| Total Federal Program Expenditures | | | <u>\$ 57,857,930</u> ^[2] |

^[1] Pass-Through Grantor's Number not available.

^[2] The difference between the Schedule of Expenditures of Federal Awards and Federal revenues reported on the Statement of Revenues, Expenses, and Change in Net Position is due to differences of \$20,818 related to revenue recognition principles in various programs.

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2015

| Program | Program Entitlements | | |
|---|----------------------|------------|-------------------|
| | Current Year | Prior Year | Total Entitlement |
| STATE CATEGORICAL AID PROGRAMS | | | |
| AB86 Adult Education Regional Consortium | \$ - | \$ 409,132 | \$ 409,132 |
| AS Degree Nursing Program | 237,887 | - | 237,887 |
| Basic Skills | 809,397 | 886,910 | 1,696,307 |
| Board Financial Assistance Program (BFAP) | 1,229,033 | - | 1,229,033 |
| CalWORKs | 652,580 | - | 652,580 |
| Child Care Food Program | 1,000 | - | 1,000 |
| Child Care Renovation and Repair | - | 6,420 | 6,420 |
| Child Development Training Consortium | 15,000 | - | 15,000 |
| Cooperative Agencies Resources for Education (CARE) | 213,448 | - | 213,448 |
| CTE Community Collaborative Grant | - | 88,977 | 88,977 |
| CTE Enhancement Fund | 1,796,881 | - | 1,796,881 |
| Deputy Sector Navigator | 300,000 | 145,378 | 445,378 |
| Disabled Students Programs and Services (DSPS) | 3,029,795 | - | 3,029,795 |
| Equal Employment Opportunities | 12,657 | 5,000 | 17,657 |
| Extended Opportunity Programs and Services (EOPS) | 1,771,071 | - | 1,771,071 |
| General Child Care | 94,737 | - | 94,737 |
| Independent Living Skills | 387,939 | - | 387,939 |
| Job Development Incentive Fund (JDIF) | - | 23,555 | 23,555 |
| Non-Credit Student Support and Success Program | 1,039,434 | - | 1,039,434 |
| Orange County Career Pathways Partnership | 258,410 | - | 258,410 |
| Orange County Teacher Pathways Partnership | 296,336 | - | 296,336 |
| Prop 39 Program Improvement Funds | 21,580 | - | 21,580 |
| Puente Project | 3,000 | - | 3,000 |
| Referee and Lane Technician | 12,000 | - | 12,000 |
| Responsive Training Fund - EHS2 | - | 136,440 | 136,440 |
| State Energy Resources Conservation and Develop. Commission Grant | 100,000 | - | 100,000 |
| Student Equity Program | 1,827,580 | - | 1,827,580 |
| Student Support and Success Program | 4,657,406 | - | 4,657,406 |
| Teacher Preparation Pipeline | 120,000 | 27,533 | 147,533 |
| Telecommunications Technology Improvement Program (TTIP) | - | 22,382 | 22,382 |
| Workforce Innovation Partnership | - | 216,369 | 216,369 |
| Total State Programs | | | |

See accompanying note to supplementary information.

| Program Revenues | | | | | |
|----------------------|------------------------|---------------------|---------------------|----------------------|-------------------------|
| Cash Received | Accounts Receivable | Accounts Payable | Unearned Revenue | Total Revenue | Program Expenditures |
| \$ 368,218 | \$ - | \$ - | \$ 65,047 | \$ 303,171 | \$ 303,171 |
| 237,887 | - | 87,708 | - | 150,179 | 150,179 |
| 1,696,307 | - | - | 524,325 | 1,171,982 | 1,171,982 |
| 1,229,033 | - | - | - | 1,229,033 | 1,229,033 |
| 652,580 | - | 1,332 | - | 651,248 | 651,248 |
| 624 | 49 | - | - | 673 | 673 |
| 1,202 | 5,218 | - | - | 6,420 | 6,420 |
| 15,000 | - | - | - | 15,000 | 15,000 |
| 213,448 | - | 677 | - | 212,771 | 212,771 |
| 88,977 | - | - | - | 88,977 | 88,977 |
| 441,382 | - | - | 161,247 | 280,135 | 280,135 |
| 80,000 | 158,486 | - | - | 238,486 | 238,486 |
| 3,029,795 | - | 920 | - | 3,028,875 | 3,028,875 |
| 17,657 | - | - | 5,000 | 12,657 | 12,657 |
| 1,771,071 | - | 10,597 | - | 1,760,474 | 1,760,474 |
| 53,671 | 768 | - | - | 54,439 | 54,439 |
| 375,174 | 12,765 | - | - | 387,939 | 387,939 |
| 22,860 | 695 | - | - | 23,555 | 23,555 |
| 1,039,434 | - | - | 210,027 | 829,407 | 829,407 |
| 248,410 | - | - | 176,759 | 71,651 | 71,651 |
| 68,896 | 102,791 | - | - | 171,687 | 171,687 |
| 5,395 | 8,784 | - | - | 14,179 | 14,179 |
| 3,000 | - | - | - | 3,000 | 3,000 |
| 12,000 | - | - | - | 12,000 | 12,000 |
| 136,440 | - | - | - | 136,440 | 136,440 |
| 40,000 | 60,000 | - | - | 100,000 | 100,000 |
| 1,827,580 | - | - | 1,264,873 | 562,707 | 562,707 |
| 5,133,596 | - | - | 521,709 | 4,611,887 | 4,611,887 |
| 75,533 | - | - | 21,225 | 54,308 | 54,308 |
| 22,382 | - | - | 12,899 | 9,483 | 9,483 |
| 216,369 | - | - | - | 216,369 | 216,369 |
| <u>\$ 19,123,921</u> | <u>\$ 349,556</u> | <u>\$ 101,234</u> | <u>\$ 2,963,111</u> | <u>\$ 16,409,132</u> | <u>\$ 16,409,132</u> |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT ANNUAL (ACTUAL) ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2015

| | *(Revised)/ Reported Data | Audit Adjustments | Audited Data |
|---|---------------------------------|----------------------|-----------------|
| CATEGORIES | | | |
| A. Summer Intersession (Summer 2014 only) | | | |
| 1. Noncredit** | 676 | - | 676 |
| 2. Credit | 2,262 | - | 2,262 |
| B. Summer Intersession (Summer 2015 - Prior to July 1, 2015) | | | |
| 1. Noncredit** | - | - | - |
| 2. Credit | 1 | - | 1 |
| C. Primary Terms (Exclusive of Summer Intersession) | | | |
| 1. Census Procedure Courses | | | |
| (a) Weekly Census Contact Hours | 23,546 | - | 23,546 |
| (b) Daily Census Contact Hours | 831 | - | 831 |
| 2. Actual Hours of Attendance Procedure Courses | | | |
| (a) Noncredit** | 5,296 | - | 5,296 |
| (b) Credit | 842 | - | 842 |
| 3. Independent Study/Work Experience | | | |
| (a) Weekly Census Contact Hours | 1,992 | - | 1,992 |
| (b) Daily Census Contact Hours | 633 | - | 633 |
| (c) Noncredit Independent Study/Distance Education Courses | - | - | - |
| D. Total FTES | 36,079 | - | 36,079 |
| SUPPLEMENTAL INFORMATION (Subset of Above Information) | | | |
| E. In-Service Training Courses (FTES) | 97 | - | 97 |
| H. Basic Skills Courses and Immigrant Education | | | |
| 1. Noncredit** | 3,307 | - | 3,307 |
| 2. Credit | 2,657 | - | 2,657 |
| <u>CCFS-320 Addendum</u> | | | |
| CDCP Noncredit FTES | 3,223 | - | 3,223 |
| Centers FTES | | | |
| 1. Noncredit** | 5,760 | - | 5,760 |
| 2. Credit | - | - | - |

* Annual report revised as of October 15, 2015.

** Including Career Development and College Preparation (CDCP) FTES.

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION FOR THE YEAR ENDED JUNE 30, 2015

| | | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | | |
|--|------|--|------------------|----------------------|--|------------------|----------------------|-----------------|
| | | Object/TOP Codes | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| <u>Academic Salaries</u> | | | | | | | | |
| Instructional Salaries | | | | | | | | |
| Contract or Regular | 1100 | \$ 36,734,166 | \$ - | \$ 36,734,166 | \$ 36,734,166 | \$ - | \$ 36,734,166 | |
| Other | 1300 | 29,433,486 | - | 29,433,486 | 29,433,486 | - | 29,433,486 | |
| Total Instructional Salaries | | | 66,167,652 | - | 66,167,652 | 66,167,652 | - | 66,167,652 |
| Noninstructional Salaries | | | | | | | | |
| Contract or Regular | 1200 | - | - | - | 13,520,094 | - | 13,520,094 | |
| Other | 1400 | - | - | - | 587,474 | - | 587,474 | |
| Total Noninstructional Salaries | | | - | - | - | 14,107,568 | - | 14,107,568 |
| Total Academic Salaries | | | 66,167,652 | - | 66,167,652 | 80,275,220 | - | 80,275,220 |
| <u>Classified Salaries</u> | | | | | | | | |
| Noninstructional Salaries | | | | | | | | |
| Regular Status | 2100 | - | - | - | 29,642,564 | - | 29,642,564 | |
| Other | 2300 | - | - | - | 1,792,478 | - | 1,792,478 | |
| Total Noninstructional Salaries | | | - | - | - | 31,435,042 | - | 31,435,042 |
| Instructional Aides | | | | | | | | |
| Regular Status | 2200 | 3,335,486 | - | 3,335,486 | 3,335,486 | - | 3,335,486 | |
| Other | 2400 | 524,074 | - | 524,074 | 524,074 | - | 524,074 | |
| Total Instructional Aides | | | 3,859,560 | - | 3,859,560 | 3,859,560 | - | 3,859,560 |
| Total Classified Salaries | | | 3,859,560 | - | 3,859,560 | 35,294,602 | - | 35,294,602 |
| Employee Benefits | 3000 | 15,083,208 | - | 15,083,208 | 32,549,921 | - | 32,549,921 | |
| Supplies and Material | 4000 | - | - | - | 1,841,806 | - | 1,841,806 | |
| Other Operating Expenses | 5000 | - | - | - | 13,599,090 | - | 13,599,090 | |
| Total Expenditures | | | | | | | | |
| Prior to Exclusions | | | 85,110,420 | - | 85,110,420 | 163,560,639 | - | 163,560,639 |

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015**

| | | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | | |
|---|--|--|------------------|----------------------|--|------------------|----------------------|-----------------|
| | | Object/TOP Codes | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| <u>Exclusions</u> | | | | | | | | |
| Activities to Exclude | | | | | | | | |
| Instructional Staff - Retirees' Benefits and Retirement Incentives | | 5900 | \$ 1,916,407 | \$ - | \$ 1,916,407 | \$ 1,916,407 | \$ - | \$ 1,916,407 |
| Student Health Services Above Amount Collected | | 6441 | - | - | - | 56,659 | - | 56,659 |
| Student Transportation | | 6491 | - | - | - | 60,738 | - | 60,738 |
| Noninstructional Staff - Retirees' Benefits and Retirement Incentives | | 6740 | - | - | - | 2,361,338 | - | 2,361,338 |
| Objects to Exclude | | | | | | | | |
| Rents and Leases | | 5060 | - | - | - | 86,022 | - | 86,022 |

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**RECONCILIATION OF *EDUCATION CODE* SECTION 84362 (50 PERCENT LAW) CALCULATION, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015**

| | Object/TOP Codes | ECS 84362 A Instructional Salary Cost AC 0100 - 5900 and AC 6110 | | | ECS 84362 B Total CEE AC 0100 - 6799 | | |
|---|---------------------|--|----------------------|-----------------|--|----------------------|-----------------|
| | | Reported Data | Audit Adjustments | Revised Data | Reported Data | Audit Adjustments | Revised Data |
| Other Operating Expenses and Services | 5000 | \$ - | \$ - | \$ - | \$ 4,225,221 | \$ - | \$ 4,225,221 |
| Total Exclusions | | 1,916,407 | - | 1,916,407 | 8,706,385 | - | 8,706,385 |
| Total for ECS 84362, 50 Percent Law | | \$ 83,194,013 | \$ - | \$ 83,194,013 | \$ 154,854,254 | \$ - | \$ 154,854,254 |
| Percent of CEE (Instructional Salary Cost/Total CEE) | | 53.72% | | 53.72% | 100.00% | | 100.00% |
| 50% of Current Expense of Education | | | | | \$ 77,427,127 | | \$ 77,427,127 |

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

There were no adjustments to the Annual Financial and Budget Report (CCFS-311) which required reconciliation to the audited financial statements at June 30, 2015.

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**PROPOSITION 30 EDUCATION PROTECTION ACT (EPA) EXPENDITURE REPORT
FOR THE YEAR ENDED JUNE 30, 2015**

| Activity Classification | Object Code | | | Unrestricted | |
|-----------------------------------|----------------------|--|---|--------------------------------------|---------------|
| EPA Proceeds: | 8630 | | | | \$ 29,048,741 |
| Activity Classification | Activity Code | Salaries and Benefits (Obj 1000-3000) | Operating Expenses (Obj 4000-5000) | Capital Outlay (Obj 6000) | Total |
| Instructional Activities | 1000-5900 | \$ 29,048,741 | | | \$ 29,048,741 |
| Total Expenditures for EPA | | \$ 29,048,741 | - | - | \$ 29,048,741 |
| Revenues Less Expenditures | | | | | \$ - |

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEETS TO THE STATEMENT OF NET POSITION JUNE 30, 2015

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Total Fund Balance, Retained Earnings, and Due to Student Groups

| | |
|-----------------------|---------------|
| General Fund | \$ 47,092,196 |
| Special Revenue Funds | 7,829,102 |
| Capital Project Funds | 37,694,603 |
| Debt Service Fund | 18,669,544 |
| Internal Service Fund | 26,761,091 |
| Fiduciary Funds | 76,237,485 |

Total Fund Balance, Retained Earnings, and Due to Student Groups

\$ 214,284,021

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is

551,291,136

Accumulated depreciation is

(147,287,209)

404,003,927

Amounts held in trust on behalf of others (Trust Funds)

(76,187,485)

The District has refunded debt obligations. The difference between the amount that was sent to escrow agent for the payment of the old debt and the actual remaining debt obligations will be amortized as an adjustment to interest expense. The balance represents the unamortized deferred charges on refunding amounts as of June 30, 2015.

3,793,943

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.

(1,348,088)

Contributions to pension plans made subsequent to the measurement date were recognized as expenditures on the modified accrual basis, but are not recognized on the accrual basis.

11,805,175

The net effect in proportionate share of net pension obligation as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected remaining service life of members receiving pension benefits.

(2,708,941)

Difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.

(38,827,016)

Long-term obligations at year end consist of:

Bonds payable 213,793,318

Compensated absences 7,608,761

Net other postemployment benefits (OPEB) obligation 60,556,658

Aggregate net pension obligation 139,324,996

Less load banking already recorded in funds (2,461,347)

Less compensated absences already recorded in funds (850,000)

(417,972,386)

Total Net Position

\$ 96,843,150

See accompanying note to supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS OF THE GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2015

| | (Budget*) 2016 | | 2015 | |
|---|----------------|-------|----------------|-------|
| | Amount | % | Amount | % |
| GENERAL FUND | | | | |
| Revenues | | | | |
| Federal | \$ 5,500,677 | 2.2 | \$ 5,914,245 | 2.8 |
| State | 161,082,574 | 63.3 | 116,102,914 | 54.2 |
| Local | 87,854,043 | 34.5 | 92,340,650 | 43.0 |
| Total Revenues | 254,437,294 | 100.0 | 214,357,809 | 100.0 |
| Expenditures | | | | |
| Academic salaries | 91,704,231 | 37.5 | 85,771,667 | 39.7 |
| Classified salaries | 50,723,718 | 20.8 | 48,483,438 | 22.3 |
| Employee benefits | 43,863,891 | 18.0 | 41,231,128 | 19.1 |
| Supplies and materials | 14,580,486 | 6.0 | 3,992,539 | 1.8 |
| Other operating expenses | 17,067,495 | 7.0 | 16,347,069 | 7.6 |
| Capital outlay | 11,792,273 | 4.8 | 8,168,310 | 3.8 |
| Student financial aid | 429,108 | 0.1 | 653,743 | 0.3 |
| Interfund transfers, net | 14,004,674 | 5.7 | 11,243,162 | 5.3 |
| Other uses, net | 153,264 | 0.1 | 154,197 | 0.1 |
| Total Expenditures and Other Uses | 244,319,140 | 100.0 | 216,045,253 | 100.0 |
| INCREASE (DECREASE) IN FUND BALANCE | \$ 10,118,154 | 4.0 | \$ (1,687,444) | (0.8) |
| ENDING FUND BALANCE | \$ 57,210,350 | 22.5 | \$ 47,092,196 | 22.0 |
| FULL-TIME EQUIVALENT STUDENTS | 36,685 | | 36,079 | |
| TOTAL LONG-TERM OBLIGATIONS, INCLUDING RETIREE BENEFIT LIABILITY | \$ 497,662,029 | | \$ 519,145,376 | |

- The year 2016 General Fund budget was adopted by the Board on September 8, 2015. The budget is included for analytical purposes and has not been subjected to audit.

See accompanying note to supplementary information.

| 2014 | | 2013 | |
|----------------|-------|----------------|-------|
| Amount | % | Amount | % |
| \$ 6,311,922 | 3.2 | \$ 6,509,998 | 3.6 |
| 100,748,574 | 51.8 | 83,809,713 | 46.4 |
| 87,478,069 | 45.0 | 90,346,129 | 50.0 |
| 194,538,565 | 100.0 | 180,665,840 | 100.0 |
| 79,400,532 | 41.3 | 76,513,418 | 41.3 |
| 43,466,247 | 22.5 | 43,217,589 | 23.3 |
| 37,044,723 | 19.3 | 38,992,647 | 21.2 |
| 3,393,514 | 1.8 | 3,567,350 | 1.9 |
| 15,098,056 | 7.9 | 12,913,566 | 7.0 |
| 3,567,867 | 1.9 | 2,508,046 | 1.4 |
| 713,127 | 0.4 | 580,663 | 0.3 |
| 9,439,534 | 4.8 | 6,464,874 | 3.5 |
| 118,657 | 0.1 | 117,738 | 0.1 |
| 192,242,257 | 100.0 | 184,875,891 | 100.0 |
| \$ 2,296,308 | 1.2 | \$ (4,210,051) | (2.3) |
| \$ 48,779,640 | 25.1 | \$ 46,483,332 | 25.7 |
| 35,714 | | 32,442 | |
| \$ 577,550,904 | | \$ 407,392,830 | |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members as of June 30, 2015.

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Schedule of Expenditures of State Awards

The accompanying Schedule of Expenditures of State Awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California Community Colleges Chancellor's Office.

Schedule of Workload Measures for State General Apportionment Annual (Actual) Attendance

FTES is a measurement of the number of students attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds, including certain restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

Reconciliation of Education Code Section 84362 (50 Percent Law) Calculation

ECS 84362 requires the District to expend a minimum of 50 percent of the unrestricted General Fund monies on salaries of classroom instructors. This is reported annually to the State Chancellor's Office. This schedule provides a reconciliation of the amount reported to the State Chancellor's Office and the impact of any audit adjustments and/or corrections noted during the audit.

Reconciliation of Annual Financial and Budget Report (CCFS-311) With Fund Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the audited financial statements.

Proposition 30 Education Protection Act (EPA) Expenditure Report

This schedule provides the District's summary of receipts and uses of the monies received through the EPA.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

Reconciliation of the Governmental Fund Balance Sheets to the Statement of Net Position

This schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

Schedule of Financial Trends and Analysis of the General Fund

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

INDEPENDENT AUDITOR'S REPORTS



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
North Orange County Community College District
Anaheim, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the business-type activities, and the aggregate remaining fund information of North Orange County Community College District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 1, 2015.

Emphasis of Matter - Change in Accounting Principles

As discussed in Notes 2 and 15 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated December 1, 2015.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rancho Cucamonga, California
December 1, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Trustees
North Orange County Community College District
Anaheim, California

Report on Compliance for Each Major Federal Program

We have audited North Orange County Community College District's (the District) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2015. The District's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vavrinich, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 1, 2015



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
North Orange County Community College District
Anaheim, California

Report on State Compliance

We have audited North Orange County Community College District's (the District) compliance with the types of compliance requirements as identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in August 2014 that could have a direct and material effect on each of the District's programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements identified in the California Community Colleges Chancellor's Office *District Audit Manual* issued in August 2014.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards and procedures identified in the California Community Colleges Chancellor's Office *District Audit Manual*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the applicable programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

Basis for Qualified Opinion

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding Section 425 Residency Determination for Credit Courses. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2015.

Unmodified Opinion for Each of the Other Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the programs noted below that were audited for the year ended June 30, 2015, except as described in the State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with State laws and regulations applicable to the following:

| | |
|-------------|---|
| Section 421 | Salaries of Classroom Instructors (50 Percent Law) |
| Section 423 | Apportionment for Instructional Service Agreements/Contracts |
| Section 424 | State General Apportionment Funding System |
| Section 425 | Residency Determination for Credit Courses |
| Section 426 | Students Actively Enrolled |
| Section 427 | Concurrent Enrollment of K-12 Students in Community College Credit Courses |
| Section 430 | Schedule Maintenance Program |
| Section 431 | Gann Limit Calculation |
| Section 435 | Open Enrollment |
| Section 438 | Student Fees – Health Fees and Use of Health Fee Funds |
| Section 439 | Proposition 39 Clean Energy |
| Section 440 | Intersession Extension Programs |
| Section 474 | Extended Opportunity Programs and Services (EOPS) and Cooperative Agencies Resources for Education (CARE) |
| Section 475 | Disabled Student Programs and Services (DSPS) |
| Section 479 | To Be Arranged (TBA) Hours |
| Section 490 | Proposition 1D State Bond Funded Projects |
| Section 491 | Proposition 30 Education Protection Account Funds |

The District reports no Instructional Service Agreements/Contracts for Apportionment Funding; therefore the compliance tests within this section were not applicable.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

Varrin, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 1, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

| | |
|---|----------------------|
| Type of auditor's report issued: | <u>Unmodified</u> |
| Internal control over financial reporting: | |
| Material weaknesses identified? | <u>No</u> |
| Significant deficiencies identified? | <u>None reported</u> |
| Noncompliance material to financial statements noted? | <u>No</u> |

FEDERAL AWARDS

| | |
|---|----------------------|
| Internal control over major Federal programs: | |
| Material weaknesses identified? | <u>No</u> |
| Significant deficiencies identified? | <u>None reported</u> |
| Type of auditor's report issued on compliance for major Federal programs: | <u>Unmodified</u> |
| Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? | <u>No</u> |

Identification of major Federal programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Programs or Cluster</u> |
|---|---|
| <u>84.063, 84.268,</u> <u>84.007, 84.033</u> | <u>Student Financial Assistance Cluster</u> |
| <u>84.048</u> | <u>Career and Technical Education Act</u> |
| <u>84.048A</u> | <u>(CTEA), Title I, Part C</u> |
| <u>84.126A</u> | <u>Title I, CTEA Transitions</u> |
| <u>84.126A</u> | <u>College to Career Program</u> |
| <u>84.126A</u> | <u>Workability III Program</u> |

| | |
|--|-------------------|
| Dollar threshold used to distinguish between Type A and Type B programs: | <u>\$ 300,000</u> |
| Auditee qualified as low-risk auditee? | <u>Yes</u> |

STATE AWARDS

| | |
|---|--|
| Type of auditor's report issued on compliance for State programs: | <u>Qualified</u> |
| Unmodified for all programs except for the following program which was qualified: | |
| | <u>Name of Program</u> |
| | <u>Section 425 Residency Determination</u> |
| | <u>for Credit Courses</u> |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT
FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

The following finding represents an instance of non-compliance and questioned costs relating to State program laws and regulations.

2015-001 Finding

Criteria or Specific Requirement

Education Code Section 68041: Each student enrolled or applying for admission to an institution shall provide the information and evidence of residence as deemed necessary by the governing board or District governing board, as appropriate, to determine his or her classification. The determination of a student's classification shall be made in accordance with this part and the residence determination date for the semester, quarter, or term for which the student proposes to attend an institution.

California Community College District's *Student Attendance Accounting Manual (SAAM)*: Residency determination shall be made for each student at the time applications for admission is accepted, and whenever a student has not been in attendance for more than one semester or quarter. [Military personnel who become] separated from the military service, [are] required to provide evidence of intent to establish California residence for a minimum of one year prior to the residence determination date.

Condition

Significant deficiency - From a sample of 25 students selected for residency determination at Cypress College, one student was classified as a resident, but had no evidence establishing California residency. The student was previously a member of the military and had received a military waiver for residency. The college did not have documentation to prove that the student did qualify for California residency.

Questioned Costs

There are no questioned costs associated with this finding. The District corrected the reporting error on the Apportionment Attendance Report (CCFS-320) for the Re-Calc Period, with an 8.56 reduction in credit FTES.

Context

One student selected for testing did not have appropriate supporting documentation to prove California residency under a military waiver. Upon further inquiry with the District, a total of five students at Cypress College and twenty-five students from Fullerton College were given military waivers without supporting documentation to prove California residency.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

Effect

The District is not in compliance with current residency determination guidelines in effect for the 2014-2015 academic year. The District is at risk of losing apportionment funding for FTES generated from students who were improperly identified as California residents.

Cause

The Veterans Access, Choice, and Accountability Act of 2014 (VACA Act) allows for reduced requirements for veterans to receive State residence status after separation from the military. This Act is effective for terms beginning after July 1, 2015. Personnel at the college campuses voted to implement the VACA Act beginning in the Spring 2015 term, prior to the effective date.

Recommendation

The District should be cognizant of changes to residency determination guidelines as released by the Chancellor's Office, including the effective dates for any new procedures. The verification of the residency status should be consistently applied and documented to ensure that only the FTES generated by California residents are included in the CCFS-320 Attendance Reports.

Management's Response and Corrective Action Plan

The District has corrected the CCFS-320 report to accurately reflect the proper amount of resident FTES. The Veterans Access Choice, and Accountability Act of 2014 (VACA Act) has been implemented as of July 1, 2015. Campus staff will continue to verify that all residency status is applied and documented to ensure that the District's CCFS-320 report is always accurately stated.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

ADDITIONAL SUPPLEMENTARY INFORMATION

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

| | General | Bookstore | Cafeteria |
|--|----------------------|---------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 150,000 | \$ 5,490,845 | \$ 1,895,215 |
| Investments | 62,609,077 | - | - |
| Accounts receivable | 5,085,598 | 147,111 | - |
| Student loans receivable | 260 | 2,497 | - |
| Due from other funds | 6,146,902 | - | - |
| Prepaid expenses | - | 117,467 | - |
| Stores inventories | 63,005 | 522,990 | - |
| Other current assets | - | - | - |
| Total Assets | \$ 74,054,842 | \$ 6,280,910 | \$ 1,895,215 |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts payable | \$ 13,313,390 | \$ 49,157 | \$ 486 |
| Due to other funds | 10,506,873 | 299,936 | - |
| Unearned revenue | 3,142,383 | - | - |
| Total Liabilities | 26,962,646 | 349,093 | 486 |
| FUND BALANCES | | | |
| Nonspendable | 213,005 | 640,457 | - |
| Restricted | 5,034,412 | - | - |
| Assigned | 4,073,637 | 5,291,360 | 1,894,729 |
| Unassigned | 37,771,142 | - | - |
| Total Fund Balances | 47,092,196 | 5,931,817 | 1,894,729 |
| Total Liabilities and Fund Balances | \$ 74,054,842 | \$ 6,280,910 | \$ 1,895,215 |

See accompanying note to additional supplementary information.

| Child Development | Bond Interest and Redemption | Capital Outlay Projects | Revenue Bond Construction | Total Governmental Funds (Memorandum Only) |
|------------------------------|---|--|--|---|
| \$ - | \$ - | \$ - | \$ - | \$ 7,536,060 |
| 46,049 | 18,669,544 | 32,696,522 | 5,303,916 | 119,325,108 |
| 9,438 | - | 35,119 | 1,975 | 5,279,241 |
| - | - | - | - | 2,757 |
| 66,143 | - | 612,339 | - | 6,825,384 |
| - | - | - | - | 117,467 |
| - | - | - | - | 585,995 |
| - | - | - | 58 | 58 |
| <u>\$ 121,630</u> | <u>\$ 18,669,544</u> | <u>\$ 33,343,980</u> | <u>\$ 5,305,949</u> | <u>\$ 139,672,070</u> |
| | | | | |
| \$ 64,693 | \$ - | \$ 942,161 | \$ 9,123 | \$ 14,379,010 |
| 54,381 | - | 4,042 | - | 10,865,232 |
| - | - | - | - | 3,142,383 |
| <u>119,074</u> | <u>-</u> | <u>946,203</u> | <u>9,123</u> | <u>28,386,625</u> |
| | | | | |
| - | - | - | - | 853,462 |
| - | 18,669,544 | 32,397,777 | 5,296,826 | 61,398,559 |
| 2,556 | - | - | - | 11,262,282 |
| - | - | - | - | 37,771,142 |
| <u>2,556</u> | <u>18,669,544</u> | <u>32,397,777</u> | <u>5,296,826</u> | <u>111,285,445</u> |
| <u>\$ 121,630</u> | <u>\$ 18,669,544</u> | <u>\$ 33,343,980</u> | <u>\$ 5,305,949</u> | <u>\$ 139,672,070</u> |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

GOVERNMENTAL FUNDS

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2015

| | General | Bookstore | Cafeteria |
|---|----------------------|---------------------|---------------------|
| REVENUES | | | |
| Federal revenues | \$ 5,914,245 | \$ - | \$ - |
| State revenues | 116,102,914 | - | - |
| Local revenues | 92,340,650 | 5,028,149 | 200,187 |
| Total Revenues | 214,357,809 | 5,028,149 | 200,187 |
| EXPENDITURES | | | |
| Current Expenditures | | | |
| Academic salaries | 85,771,667 | - | - |
| Classified salaries | 48,483,438 | 921,836 | - |
| Employee benefits | 41,231,128 | 306,162 | - |
| Books and supplies | 3,992,539 | 3,722,404 | 486 |
| Services and operating expenditures | 16,347,069 | 125,869 | - |
| Capital outlay | 8,168,310 | 20 | - |
| Debt service - principal | - | 2,505 | - |
| Debt service - interest | 106,626 | - | - |
| Total Expenditures | 204,100,777 | 5,078,796 | 486 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 10,257,032 | (50,647) | 199,701 |
| OTHER FINANCING SOURCES (USES) | | | |
| Operating transfers in | 19,270 | - | - |
| Operating transfers out | (11,262,432) | (3,955) | (75,000) |
| Other sources | 22,300 | - | - |
| Other uses | (723,614) | - | - |
| Total Other Financing Sources (Uses) | (11,944,476) | (3,955) | (75,000) |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES | (1,687,444) | (54,602) | 124,701 |
| FUND BALANCES, BEGINNING OF YEAR | 48,779,640 | 5,986,419 | 1,770,028 |
| FUND BALANCES, END OF YEAR | \$ 47,092,196 | \$ 5,931,817 | \$ 1,894,729 |

See accompanying note to additional supplementary information.

| Child Development | Bond Interest and Redemption | Capital Outlay Projects | Revenue Bond Construction | Total Governmental Funds (Memorandum Only) |
|------------------------------|---|--|--|---|
| \$ 15,919 | \$ - | \$ - | \$ - | \$ 5,930,164 |
| 42,848 | 144,237 | 4,092,971 | - | 120,382,970 |
| 313,178 | 18,862,239 | 2,298,763 | 19,810 | 119,062,976 |
| 371,945 | 19,006,476 | 6,391,734 | 19,810 | 245,376,110 |
| - | - | - | - | 85,771,667 |
| 339,114 | - | - | - | 49,744,388 |
| 139,458 | - | - | - | 41,676,748 |
| 34,264 | - | 58,134 | - | 7,807,827 |
| 25,250 | - | 1,174,252 | 13,909 | 17,686,349 |
| - | - | 5,282,993 | 99,658 | 13,550,981 |
| - | 14,200,000 | - | - | 14,202,505 |
| - | 3,494,464 | - | - | 3,601,090 |
| 538,086 | 17,694,464 | 6,515,379 | 113,567 | 234,041,555 |
| (166,141) | 1,312,012 | (123,645) | (93,757) | 11,334,555 |
| 166,142 | - | 4,593,099 | 709,755 | 5,488,266 |
| - | - | (709,755) | - | (12,051,142) |
| - | - | - | - | 22,300 |
| - | - | - | - | (723,614) |
| 166,142 | - | 3,883,344 | 709,755 | (7,264,190) |
| 1 | 1,312,012 | 3,759,699 | 615,998 | 4,070,365 |
| 2,555 | 17,357,532 | 28,638,078 | 4,680,828 | 107,215,080 |
| \$ 2,556 | \$ 18,669,544 | \$ 32,397,777 | \$ 5,296,826 | \$ 111,285,445 |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUND

BALANCE SHEET

JUNE 30, 2015

| | Internal Service Fund |
|--|--------------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 75,000 |
| Investments | 25,938,431 |
| Accounts receivable | 7,649 |
| Due from other funds | 6,292,072 |
| Total Assets | \$ 32,313,152 |
| LIABILITIES AND FUND EQUITY | |
| LIABILITIES | |
| Accounts payable | \$ 41,171 |
| Due to other funds | 477,362 |
| Claim liabilities | 5,033,528 |
| Total Liabilities | 5,552,061 |
| FUND EQUITY | |
| Retained earnings | 26,761,091 |
| Total Liabilities and Fund Equity | \$ 32,313,152 |

See accompanying note to additional supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS FOR THE YEAR ENDED JUNE 30, 2015

| | Internal Service Fund |
|---|--------------------------------------|
| OPERATING REVENUES | |
| Premium contributions | \$ 7,307,072 |
| OPERATING EXPENSES | |
| Academic salaries | 598 |
| Classified salaries | 143,021 |
| Employee benefits | 4,315,463 |
| Books and supplies | 500 |
| Services and other operating expenditures | 1,802,623 |
| Total Operating Expenses | 6,262,205 |
| Operating Income | 1,044,867 |
| NONOPERATING REVENUES | |
| Interest income | 90,401 |
| NET INCOME | 1,135,268 |
| RETAINED EARNINGS, BEGINNING OF YEAR | 25,625,823 |
| RETAINED EARNINGS, END OF YEAR | \$ 26,761,091 |

See accompanying note to additional supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

PROPRIETARY FUND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2015

| | Internal Service Fund |
|--|--------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from user charges | \$ 7,307,072 |
| Cash payments to employees for services | (143,619) |
| Cash payments for insurance claims | (4,315,463) |
| Cash payments to suppliers for goods and services | (500) |
| Cash payments for other operating expenses | (624,906) |
| Net Cash Provided from Operating Activities | <u>2,222,584</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest on investments | <u>91,597</u> |
| Net change in cash and cash equivalents | 2,314,181 |
| Cash and cash equivalents - Beginning | <u>23,699,250</u> |
| Cash and cash equivalents - Ending | <u><u>\$ 26,013,431</u></u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM OPERATING ACTIVITIES | |
| Operating Income | \$ 1,044,867 |
| Changes in assets and liabilities: | |
| Due from other funds | 1,002,397 |
| Accounts payable | 40,080 |
| Due to other funds | 135,240 |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES | <u><u>\$ 2,222,584</u></u> |

See accompanying note to additional supplementary information.

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS

BALANCE SHEET

JUNE 30, 2015

| | Associated Students Trust | Student Representation Fee | Student Financial Aid |
|--|---------------------------------|----------------------------------|-----------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 935,902 | \$ 62,572 | \$ - |
| Investments | - | - | 5,682,987 |
| Accounts receivable | 438 | - | 886,897 |
| Student loans receivable | - | 666 | 744,936 |
| Due from other funds | - | - | - |
| Prepaid expenses | - | - | - |
| Total Assets | \$ 936,340 | \$ 63,238 | \$ 7,314,820 |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts payable | \$ 1,925 | \$ - | \$ 7,234,701 |
| Due to other funds | 28,585 | - | 30,119 |
| Unearned revenue | - | - | - |
| Due to student groups | 86,940 | - | - |
| Total Liabilities | 117,450 | - | 7,264,820 |
| FUND BALANCES | | | |
| Reserved | - | - | 50,000 |
| Unreserved | | | |
| Designated | 818,890 | 63,238 | - |
| Total Fund Balances | 818,890 | 63,238 | 50,000 |
| Total Liabilities and Fund Balances | \$ 936,340 | \$ 63,238 | \$ 7,314,820 |

See accompanying note to additional supplementary information.

| Retiree Benefits | Other Trust | Other Agency Fund | Total |
|-----------------------------|------------------------|------------------------------|----------------------|
| \$ - | \$ 5,767,240 | \$ 39,474 | \$ 6,805,188 |
| 66,737,293 | 5,517,998 | - | 77,938,278 |
| 24,076 | 2,528,957 | 19,000 | 3,459,368 |
| - | 618,888 | 11,747 | 1,376,237 |
| 3,452,308 | 135,019 | 70,176 | 3,657,503 |
| - | 500 | - | 500 |
| <u>\$ 70,213,677</u> | <u>\$ 14,568,602</u> | <u>\$ 140,397</u> | <u>\$ 93,237,074</u> |
| | | | |
| \$ 3,548 | \$ 351,384 | \$ - | \$ 7,591,558 |
| - | 5,373,661 | - | 5,432,365 |
| - | 3,975,666 | - | 3,975,666 |
| - | 3,563,089 | 140,397 | 3,790,426 |
| <u>3,548</u> | <u>13,263,800</u> | <u>140,397</u> | <u>20,790,015</u> |
| | | | |
| - | 500 | - | 50,500 |
| <u>70,210,129</u> | <u>1,304,302</u> | <u>-</u> | <u>72,396,559</u> |
| <u>70,210,129</u> | <u>1,304,802</u> | <u>-</u> | <u>72,447,059</u> |
| | | | |
| <u>\$ 70,213,677</u> | <u>\$ 14,568,602</u> | <u>\$ 140,397</u> | <u>\$ 93,237,074</u> |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

FIDUCIARY FUNDS

STATEMENTS OF CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2015

| | Associated Students Trust | Student Representation Fee | Student Financial Aid |
|--|---------------------------------|----------------------------------|-----------------------------|
| REVENUES | | | |
| Federal revenues | \$ - | \$ - | \$ 51,906,948 |
| State revenues | - | - | 3,498,631 |
| Local revenues | 313,033 | 17,982 | 18,615 |
| Total Revenues | 313,033 | 17,982 | 55,424,194 |
| EXPENDITURES | | | |
| Current Expenditures | | | |
| Classified salaries | 72,344 | - | - |
| Employee benefits | 16,369 | - | - |
| Books and supplies | 45,642 | - | - |
| Services and operating expenditures | 80,298 | 14,421 | 3,302 |
| Capital outlay | 1,139 | - | - |
| Total Expenditures | 215,792 | 14,421 | 3,302 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 97,241 | 3,561 | 55,420,892 |
| OTHER FINANCING SOURCES (USES) | | | |
| Operating transfers in | - | - | - |
| Operating transfers out | (15,000) | - | (15,313) |
| Other uses | - | - | (55,405,579) |
| Total Other Financing Sources (Uses) | (15,000) | - | (55,420,892) |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES | 82,241 | 3,561 | - |
| FUND BALANCES, BEGINNING OF YEAR | 736,649 | 59,677 | 50,000 |
| FUND BALANCES, END OF YEAR | \$ 818,890 | \$ 63,238 | \$ 50,000 |

See accompanying note to additional supplementary information.

| Retiree Benefits | Other Trust | Total |
|-----------------------------|------------------------|----------------------|
| \$ - | \$ - | \$ 51,906,948 |
| - | - | 3,498,631 |
| 1,276,918 | 254,281 | 1,880,829 |
| <u>1,276,918</u> | <u>254,281</u> | <u>57,286,408</u> |
| - | 60,991 | 133,335 |
| - | 5,118 | 21,487 |
| - | 15,876 | 61,518 |
| 44,634 | 283,726 | 426,381 |
| - | 2,449 | 3,588 |
| <u>44,634</u> | <u>368,160</u> | <u>646,309</u> |
| <u>1,232,284</u> | <u>(113,879)</u> | <u>56,640,099</u> |
| 6,357,843 | 245,346 | 6,603,189 |
| - | (10,000) | (40,313) |
| - | - | (55,405,579) |
| <u>6,357,843</u> | <u>235,346</u> | <u>(48,842,703)</u> |
| 7,590,127 | 121,467 | 7,797,396 |
| <u>62,620,002</u> | <u>1,183,335</u> | <u>64,649,663</u> |
| <u>\$ 70,210,129</u> | <u>\$ 1,304,802</u> | <u>\$ 72,447,059</u> |

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

NOTE TO ADDITIONAL SUPPLEMENTARY INFORMATION JUNE 30, 2015

NOTE 1 - PURPOSE OF SCHEDULES

Fund Financial Statements

The accompanying financial statements report the governmental, proprietary, and fiduciary fund activities of North Orange County Community College District and are presented on the modified accrual basis of accounting. Therefore, some amounts presented in these financial statements may differ from amounts presented in, or used in, the preparation of the basic financial statements. This information is not a required component of the financial statements in accordance with GASB Statements No. 34 and No. 35 and is presented at the request of District management.